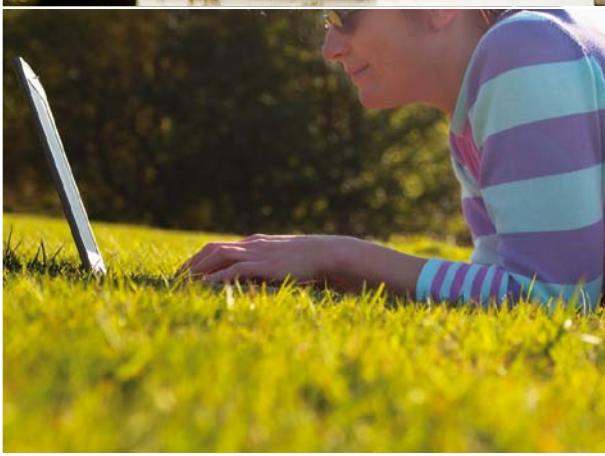
OECD Rural Policy Reviews

Strategies to Improve Rural Service Delivery









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OECD RURAL POLICY REVIEWS

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Foreword

The OECD brings countries together to help government meet the challenges of a globalised economy. Ensuring that rural residents and firms have access to an appropriate set of public and private services is a significant challenge for OECD governments. As the service sector plays a larger role in national, regional and local economies any gaps in service availability and quality can limit development potential. Moreover national governments are making stronger commitments to provide public services as part of their effort to improve social cohesion and enhance citizens' quality of life.

The challenges of service delivery are especially acute in rural areas because of lower density populations, larger distances that have to be travelled by service users and service providers, and the small numbers of people in any location that preclude economies of scale. This makes delivering any particular service more expensive in a rural location than in urban centres. As governments face increasingly limited budgets going forward, they will be looking for innovative ways to balance the development potential of rural areas, which increasingly rests upon the availability of services, against competing claims on national funds and concerns about lower returns on public outlays.

This report blends the knowledge drawn from various OECD Rural Development Conferences with the knowledge developed in the OECD Rural Policy Reviews. The reviews examine the prospects and policies for rural regions. In each rural review the nation examined has faced significant issues in ensuring that services are available in its rural territory. Similarly, the Forums have explored some of the challenges and opportunities associated with public service delivery in rural areas and have provided insights on solutions. The solutions have included new approaches by various levels of government, private enterprise and the voluntary sector. In this report a synthesis of the various issues faced by these national governments is developed and guidelines for forming a service delivery strategy are set out. In addition, the report provides an in-depth assessment of how innovation and one strategy, co-design and co-delivery of public services, can be used to better match the services provided with the specific needs of rural residents.

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Overview

This document collects a number of elements from the work programme of the OECD Rural Policy Programme on service availability in rural areas. Rural service delivery is a clear concern of member countries and the Rural Working Party of the OECD in collaboration with the Commission for Rural Communities has supported a multi-year project by the Secretariat to investigate underlying problems in rural service delivery and innovative approaches that can resolve these problems. Collecting different parts of the work in a single volume provides a number of elements in one place: a conceptual structure for thinking about the rural service delivery challenge, a strategy for thinking about the role of government in service delivery, a focus on innovation and co-design and co-delivery public management tools in relation to designing a better approach to service delivery, and a reprise of a set of best practices in rural service delivery.

While there has been a longstanding interest in rural services, the severity and persistence of the recession has made the issue even more important. National stimulus funds have largely focused on the construction industry and on the goods producing sectors. In addition, there has been a tendency to focus spending in urban areas where the majority of the population resides and where multiplier effects may be larger. This means that rural areas have been largely left to adjust to the recession on the basis of their own resources. But the long term consequences of the recession and deficit finance have important implications for rural service delivery. To the extent that rural areas are more dependent on public support for services than are urban areas, they will feel a greater effect when national governments begin to rebalance their budgets and reduce expenditures. This makes it important for rural citizens to both make a strong case for continued public support and to develop alternative means for providing the services that are vital for economic development.

The three parts of the book progress from a more conceptual to a more practice focused discussion. Chapter 1 provides an overview of the service delivery challenge and identifies why delivering services in rural areas is almost always more difficult than in urban places. It emphasises that public, private and voluntary service providers are all important approaches, and

that we should not assume that only one type of service provider can provide a specific service. The chapter sets out some basic approaches for delivering services in innovative ways and includes examples of how different OECD members have adopted these approaches in their rural areas.

Chapter 2 provides a framework for national governments to think about developing a service delivery strategy for rural areas. The key idea in the chapter is that there are multiple ways to think about the service delivery challenge and that for governments to be effective in ensuring that rural citizens and businesses have access to an appropriate set of services it is important to approach the problem from a variety of perspectives. While it may be easy to identify core services that should be available everywhere, it may be better to provide them in different ways in rural than in urban areas. Moreover the role of government can go beyond direct provision and include providing a framework or support for other types of providers, such as the private sector or voluntary organisations. Once again examples from OECD member countries are provided to show how these questions are being resolved in practice.

Chapter 3 summarises the results from the OECD workshop *Designing Services for Rural Communities: The Role of Co-design and Co-delivery.* The workshop explored the relationship between innovation and public management tools such as co-design and co-delivery and the role they can play in improving rural service delivery. The workshop also focused on bringing service users into the process of identifying which services were to be provided and how they would be delivered. Three different examples of rural service delivery strategies in rural England provided a practical context for the discussion.

Chapter 1

The Service Delivery Challenge in Rural Areas

This chapter provides an overview of the challenges in rural areas and outlines some broad policy approaches that are contributing to improving rural service delivery. It is arranged as follows: First, a context is set that includes all services, not just public services, and not just services that are provided by governments; and the point is made that while rural and urban citizens have common aspirations, the differences in their geography lead to different service delivery issues. Second, there is a discussion of the problems associated with delivering these services in rural regions. Third, a close look is taken at the evolving role of services in OECD countries and the opportunities for improved service provision. Finally, the chapter concludes by illustrating some new, and not so new, approaches visible in OECD countries that have the potential to improve service delivery in rural regions.

Introduction

Historically urban and rural territories and populations were seen as distinct, both by governments and by the people who lived in the two settings. Rural people largely accepted the fact that they had a different set of occupational choices, different life styles and different possibilities for obtaining goods and services. In general there was limited interaction between the urban and rural populace because people did not travel much and because the available media in rural areas tended to describe mainly local issues. In this environment it was possible to think of a rural service delivery challenge that was largely unrelated to what was going on in urban areas. Moreover rural areas were relatively homogeneous and self-contained which further reduced the problem of delivering services.

But now mass media link rural and urban societies and have fostered a common definition of a desirable life, which includes access to a broad range of services. Thus the separation between urban and rural has largely disappeared. A side-effect of the integration process is an awareness of the full set of services available in urban settings. This is in contrast to the rural situation of the past, where the range of services was more limited, both in terms of the mix of services and the number of providers of any given service. Moreover in many rural regions the comparison between urban and rural service levels is further complicated by the fact that the quantity and quality of locally available rural services is declining.

In the last fifty years the service sector has moved to a dominant role in developed economies. The service sector, in aggregate, now dominates total employment and value-added in OECD countries, accounting for more than 70% of these two measures (OECD, 2005). As shown in Table 1.1 the role of services continues to increase in importance. While services play a slightly smaller role in rural regions than in urban, they are still the dominant component of the economy. This makes it clear that a vibrant service sector is both vital for a prosperous local economy and a crucial mechanism for ensuring that the needs of individual citizens are met.

This has led to a growing interest in ensuring that the service sector contributes fully to economic growth within the regions of the OECD countries, both in terms of its direct effect and as a foundation, or input, for the production of the primary and secondary sectors. The concern applies to rural areas where there are particular challenges in service delivery.

Table 1.1. **Economy > sectoral contributions to gross value added**

	Agriculture % of Value Added		Industry % of Value Added		Services % of Value Added	
	2007	1997	2007	1997	2007	1997
Australia	2.6	3.4	29.1	27.7	68.3	68.9
Austria	1.8	2.3	30.6	30.9	67.7	66.8
Belgium	0.8	1.6	23.9	28.4	75.3	70.1
Canada	2.2	2.5	31.7	30.9	66.1	66.6
Czech Republic	2.4	4.2	38.9	40.6	58.7	55.2
Denmark	1.2	3.2	26.5	25.6	72.4	71.2
Finland	3.3	4.1	32.6	32.3	64.2	63.7
France	2.2	3.2	20.4	23.5	77.4	73.3
Germany	0.9	1.3	30.4	31.0	68.7	67.7
Greece	3.8	7.7	20.4	20.0	75.9	72.2
Hungary	4.0	7.4	29.7	31.8	66.3	61.1
Iceland	5.8	9.8	23.7	28.9	70.5	61.3
Ireland	1.7	5.2	33.6	38.6	64.8	56.2
Italy	2.1	3.2	27.5	29.5	70.4	67.3
Japan	1.4	1.7	28.5	32.8	70.1	65.5
Korea	2.9	5.2	37.1	37.9	60.0	56.2
Luxembourg	0.4	0.8	15.6	20.9	84.0	78.2
Mexico	3.3	5.5	35.8	35.2	60.9	59.2
Netherlands	2.0	3.5	24.4	25.8	73.6	70.7
New Zealand	6.2	6.8	24.6	25.5	69.2	67.6
Norway	1.4	2.4	42.7	37.1	55.9	60.4
Poland	4.3	6.6	31.8	33.4	63.8	60.0
Portugal	2.5	4.6	24.5	29.1	73.0	66.3
Slovak Republic	3.6	5.3	39.3	35.2	57.2	59.5
Spain	2.9	5.0	29.8	29.3	67.4	65.7
Sweden	1.4	2.5	28.3	29.1	70.3	68.4
Switzerland	1.2	1.8	28.0	28.5	70.8	69.8
Turkey	8.7	10.8	27.8	37.2	63.5	52.2
United Kingdom	0.7	1.4	23.0	29.9	76.3	68.7
United States	1.3	1.7	21.8	25.5	76.9	72.8

Source: OECD in Figures 2009.

OECD governments largely recognise similarities in rural and urban economic structure, but have been less comfortable in recognising the common aspirations of citizens. While OECD member countries continue to view their rural and urban territories as distinct and separable for most public policy purposes, the reality is that citizens in both types of territory are being drawn closer together in terms of common aspirations and life style. Governments implicitly recognise this when they say there is no real difference between urban and rural anymore. But if there is no real difference, should there be a difference in access to services?

It is possible to identify systematic differences in services, availability and quality, between urban and rural territories. When statistics are collected and compared using different types of territory, it is usually possible to see if there are differences in the level of service available across places. In general we find fewer and weaker services in rural than in urban regions. But these differences are only evidence of a problem if equality of service provision and access is the criterion of analysis. If another criterion, such as satisfaction with the mix of services is used, then differences could even be desirable. However, for most people and most governments equality is still the standard.

In this chapter a broader discussion of the underlying challenges of service delivery in rural areas is provided along with some strategies in OECD countries that are having a positive impact on rural service delivery. While the main focus is on public services – that is, those services where government plays a role in provision, the discussion also includes those services typically provided by private firms on a user pay basis and services provided collectively within a community by volunteers.

1.1. Types of services

There is general agreement that the economies of the OECD countries are becoming more oriented to the provision of services. However there is great variability in the various types of services that are found in different regions, especially in rural areas. Services can be categorised in a number of ways including, the type of entity providing them, the type of user, the nature of the services provided, etc. From a policy perspective a useful starting point is the broad nature of the service. Three types of service can be identified. They are private services, public services and collective or joint services.

Private services

Many services are provided by private firms on a fee for service basis. These services are provided where the combination of price, volume of business and cost of provision allows a sufficient profit for the firm to survive. Characteristics of these services are similar to those for private goods in that the services have to be excludable and rival in use. For example, farm appraisal services satisfy these conditions. An appraiser provides a statement showing the estimated value of a piece of property to an individual farm owner, but that statement has minimal value to other farm owners. Similarly, a private snow plough operator clears the private drive of his or her client but provides no benefit to those not prepared to pay for the service. While OECD countries mainly rely on market forces to deliver goods and services, there are important roles that government can play to support markets (Box 1.1).

Box 1.1. **Implementation of market mechanisms for the provision of services**

Many sub-central public services are potentially open to competition among providers. Implementing market mechanisms means separating provision from funding. This allows many sub-central governments to retain the essential properties of a public service while reaping the benefits of emulating a market. Market mechanisms may be grouped in three dimensions:

- Private ownership and contracting. This dimension deals with public-private ownership and different forms of contracting. Examples: tendering, out-sourcing, public-private partnerships.
- User choice and competition. This dimension deals with the regulatory environment for public service providers, the extent to which consumers are allowed to choose among providers and to what extent providers have access to the market. Examples: user choice, market access and competition among providers.
- Price signals and funding. This dimension deals with the principles of funding public service provision; the extent to which public funding reflects actual service utilisation and/or service performance. Examples, user charges and fees; vouchers and other related funding.

A number of privately managed but publicly funded schools are emerging in Sweden. After the 1994 education reforms, private or volunteer operators were allowed to open new schools funded by the State. The local municipality must pay the school the same amount as if the child was educated by the municipality and the institution is entitled to make a profit. There are no fees to students and they are admitted on a first-come first-served basis with no requirements (*i.e.* religion or entrance exams).

The *Kunskapsskolan* (Knowledge Schools) was founded in 1999 and currently operates 22 secondary schools for pupils between the ages of 12 and 16, and ten upper secondary schools for 16 to 19 year olds, totalling 10 000 students. They have now 750 employees and teachers and a net profit-turnover ratio of 10.6%. In July 2008 this model was expanded to the UK. The model relies on students doing most of the work through their *Kunskapsporten* (Knowledge Portal), which provides the standardised curriculum, while having personalised assistance from tutors. This portal allows each student to work at his/her own pace and to balancing his/her own time depending on his/her own strengths and weaknesses. They spend 15 minutes each week with a tutor, reviewing the past week's progress and agree on new goals and a timetable for the next one. Each subject has 35 steps. In order to pass, students have to complete at least 25 steps. Each additional step implies a higher grade on the subject.

School facilities are simple and standardised. It rents fields nearby for sport activities, and sends pupils away to one of two special built facilities for a week each term for home economics, woodwork and art, rather than providing costly, little-used facilities in the school. This allows cost savings. Close monitoring of teachers is crucial for the model to work. It tracks performance of individual teachers to see which ones do best as personal tutors or as subject teachers. It offers incentives (bonuses) to excellent performance, and considers extra pay for good performing teachers who are willing to move to underperforming schools.

Sources: Blöchliger, Hansjörg (2008), *Market Mechanisms in Sub-Central Public Service Provision,* Working Papers No. 626. ECO/WKP(2008)34; *The Swedish model,* The Economist, 12 June 2008, *www.kunskapsgymnasiet.se/foretaget/inenglish.4.1d32e45f86b8ae04c7fff213.html; and OECD (2008a).*

Private services are made available when the service provider can operate at a profit. This means that there has to be enough demand by consumers to cover the cost of providing the service. In rural areas the private sector is less able to provide services that are readily available in urban settings. This reflects less demand as there are few people spread out over a large territory. This results in high transportation costs that have to be born either by the customers, which reduces their demand, or by the firm, which reduces its profits.

Government is increasingly recognising that it can play a role in facilitating the provision of services. While most OECD governments have longstanding programs that support the primary sector and manufacturing in rural areas, there is a growing recognition that the for-profit service sector can benefit from various types of assistance. In many cases this assistance takes the form of encouragement to commence operations (Box 1.2), especially where there are weak entrepreneurial foundations or market imperfections such as limits on finance or local workforce skills.

In addition, to the extent that household incomes are lower on average in rural than in urban areas, there is less demand for many services that might be considered luxuries and not necessities. In this situation the local demand for the service may be too small to allow it to be provided profitably. Where services are either being segmented into more specialised providers, such as, automobile repair shops that specialise in only one type of car, or services that are subject to scale or scope economies, the low level of rural demand may preclude profitable provision.

An alternative to the for-profit firm that is found in rural areas of some countries is either a co-operative or a social enterprise. Because the owners of a co-operative firm are its customers there is no motive to generate a profit. This allows the firm to operate in an environment where profits are too low to attract an investor-owned firm. Co-operatives are commonly used to produce or market goods, but can also provide services, such as, health care, assisted living facilities, provision of artistic and cultural experiences, or credit unions, Social enterprises may be organised as co-operatives or as another form of business. In either case some other motive than profit maximisation guides their actions and, as a result, they too may be prepared to provide goods or services in places that for-profit firms reject.

Box 1.2. **Enterprise development in rural Ireland and rural Spain**

Western Development Commission, Ireland

The Western Region is one of the poorest areas in Ireland and suffered steep population loss for a number of years. Since rural entrepreneurs in the Western Region had difficulty accessing investment capital. the Western Development Commission (WDC)—a regional governance body—established the Western Investment Fund (WIF) to fill this equity gap by providing seed and venture capital. To this end, WDC provides the money for working capital, funding is targeted to help the initiative develop in accordance with the business plan. The agency works with the business to market products and often joins the company as a Non Executive Director. Since 2001 the fund has invested over EUR 27 million in 75 SMEs and social enterprises. Of the group, 72% are enterprises based outside major urban centres and the projects have created or sustained over 1 500 jobs, many of them at the graduate level. Notably, several of the companies have managed to secure strategic alliances with key global companies such as Boston Scientific, Johnson & Johnson, Bombardier and Hewlett Packard. The agency also seeks to attract more private sector involvement in the regions and increase the number of enterprises that impact quality of life. WDC also supports social enterprise's which typically struggle to access funding beyond public sector grants. As a result, the number of social enterprises has increased and due to the involvement of the WDC, social enterprises have managed to increase their ability to procure private loans.

***Cajas de Ahorro* Saving Banks, Spain**

Penetration of financial services in localities of low income per capita and population in Spain is much higher than that of comparable European countries such as France or Italy. This is because 26% of a wide network of saving banks (*Cajas de Ahorro*) are in municipalities with less than 10 000 inhabitants. A portion that out numbers the proportion of population living in these municipalities 22%, Spanish saving banks special in micro-credit to promote self-employment and creation of micro-enterprises. The clients are typically women entrepreneurs, (often migrants) 35 years or older. As of 2006, they have participated in approximately 140 017 "social projects" with an investment of EUR 1 338.5 Million. In addition to financial support, the banks provide: special financing for social housing, land ownership; support local development through mutual guarantees, enterprise co-operation and programmes for local initiatives and grant venture capital. They also enter into specific collaborations such as special agreements, CAP subsidies administration insurance and travel services to migrants. Through creative partnerships with programme like EOI's (*Escuela de Organización Industrial*) CRECE initiative which provides training and advice to young would-be entrepreneurs and support to existing small businesses, they have advised 24 770 participants in training and managed 20 000 projects of business creation or consolidation of enterprises.

Sources: Buckley, Gillian (2008), Session V, OECD Rural Development Conference, *Innovative Service Delivery: Meeting the Challenges of Rural Regions*, Cologne, Germany 3-4, April 2008, *www.oecd.org/gov/regionaldevelopment/cologne*; Moraleda, F. (2007), Session III, OECD Rural Development Conference, *Innovative Rural Regions: The Role of Human Capital and Technology*, Cáceres, Spain, 21-23 March 2007, *www.oecd.org/gov/regionaldevelopment/caceres*.

Public services

Other services are provided directly by the government or indirectly – where the government is not the direct provider but still plays a role in their provision through regulation or a financial contribution. The common attribute of all public services, irrespective of what entity provides them, is the presence of spillover or externality effects of some kind that lead to markets undersupplying the socially optimal quantity of the service.

Public services include all services where the government has a significant influence, not just those provided by government. The most obvious public services are those directly provided by some level of government, such as police protection or building inspection. Governments engage in public service delivery for a number of reasons, all of which reflect an under provision by market forces or voluntary organisations. However, public services can be provided by private firms, for example solid waste collection and disposal, or by voluntary organisations, for example a community volunteer fire brigade. In these cases while the government does not provide the service it is involved in the process, perhaps by providing funds, establishing regulations or some other means.

The first rationale for public sector involvement is that the service has public good attributes. For public goods the usual attributes of rivalry in consumption and the ability to exclude others do not apply. In this situation there are clear spillover benefits in the form of zero or low marginal cost from additional users of the service that are combined with difficulty in excluding other users. For example, it would be difficult to restrict police protection to the subset of a community who have paid for the service.

A second reason for government involvement is that the service is a merit good. With merit goods an individual is the direct beneficiary of the service and there is no possibility for an additional person to consume the same service event, but there are indirect benefits to society beyond those going to the individual. Consider immunisation against infectious diseases. An individual may choose to be immunised primarily out of a concern about their own risk of infection, but in doing so they reduce the chances that others will be exposed to infection, so there is an incentive for society to encourage immunisation on a general basis.

The third reason for government involvement in public services is the case of network industries. In a network industry expansion of the availability of the good or service provides incremental benefits to all users, not just those being added to the network. For example, expanding the road network provides alternative routes and the opportunity to connect additional places that can benefit others than the people newly connected. Similarly, broader diffusion of Internet access provides all users with additional contact points.

Collective or joint services

Finally, there are services that groups of individuals agree to provide to themselves, or to others, on a purely voluntary basis. Voluntary or faith based organisations provide important services in some regions. In almost all regions there are voluntary sports organisations that provide training and competitions. In neighbourhoods and small communities groups emerge to plant flowers in road medians or weed cemeteries. In some countries there is modest assistance for these groups in the form of small grants or tax benefits for those who volunteer or contribute, but these benefits are too small to motivate the behaviour of the volunteers.

Services provided collectively by volunteers are an important category of services, especially in rural areas. The motivation for collective action is not profit, but to ensure that the service is available. In this sense voluntary organisation resembles not-for-profit firms, but the distinguishing feature is a different organisational structure. The organisation may be spontaneous in the sense that there is no formal structure and it may exist intermittently. A group of neighbours who meet one weekend to maintain a nearby park meets this condition.

Voluntary services exist in both urban and rural regions, but they play a larger role in rural places. Both private sector services and public services are more costly to provide in rural areas and consequently there is less provision, due to lower profits or too high cost, in many small and remote areas. This leaves these places with the choice of collective action to provide the service or going without. Inevitably on a small number of services can be provided in these places because of the scarcity of time available to volunteers and the small number of volunteers. Moreover there is no reason to believe that the services that are provided are the ones that are most needed. Instead they are the ones that the volunteers are most capable of providing.

How to classify services and service providers

Classifying services

Table 1.2 sets out a framework for thinking about different types of services in terms of the interaction between how they are supplied and the factors influencing demand. It is the full set of services, including those that go beyond those where there is a public interest, that influence the development potential of a region or community. In practice, private and voluntary may account for the majority of available services, but they are not easily influenced by government policy. Because the main audience for the OECD is government policy makers, the primary focus of the balance of the paper is on public services.

Table 1.2. **Classification of rural services in supply and demand considerations**

	Demand	Supply			Gaps between supply and demand emerge…
		Public sector	Private sector	Not-for-profit	
Distance	Depends on the type of service, frequency of use, and availability of transport (public and private). In some cases, proximity is indispensable for meeting demand; in others a certain distance to be travelled becomes an acceptable condition.	Decentralised in the past. The service now tends to follow a profitability and concentration approach.	Spatial concentration of services aimed at the achievement of sufficient critical mass for an economic balance.	For certain services, voluntary resources and associations make it possible to maintain services at the local level.	When the service sought by the consumer is to be found at a distance beyond the acceptable limit for the consumer due to the cost, time travelling, or lack of access to adequate means of transport. In general, the geographical distribution of services does not respond to consumer expectations.
Adaptability	This category is linked to the trends of modern life. Demand should be interpreted with a view to identifying the relevant level of adaptability. *E.g.* Regularity of demand, demand in terms of timetables.	Rigidity of structures. Special nature of the service reproducing the urban model. Nevertheless, there is search for adaptability when the decision-making capacity is closer to the area.	Mobility of certain services (especially mobile traders and weekly markets; and occasionally mobile banks).	Greater adaptability, personalisation and consideration of particular demands.	If service provision is not capable of meeting the needs of the users in terms of the diversity of proposed services, modalities made available, timetables, rigidity in the design and use of the structure or a specialised approach (the only response to a scarcely populated area is the discontinuation of the service)
Quality	Established according to recognised standards and accepted by the community on the basis of comparisons with the outside world; it is also related to the human qualities of a service, such as the relationship between those concerned.	Search for a standard quality. New mechanisms for taking consumers' demands into account. Quality can remain low in monopolistic situations where there are no mechanisms through which consumers can exert pressure.	Adaptation to quality standards, but even more to diversification as a result of competition. Lack of involvement of users. The growing precariousness of job security with negative repercussions on the quality of services.	Extremely variable quality depending on the level of recognition, available resources, etc. More than the structure, quality depends on the level of personal involvement of those providing the service. Effort to involve suppliers and consumers.	When there is no adaptation to the content of the service, when the opinion of consumers is not taken into consideration and when a scattered demand makes it impossible to provide a service of acceptable quality.

Source: Adapted from Leader European Observatory.

Matching services to types of service provider

It is appealing to think that specific types of services should be provided by specific types of service providers. While certain types of services may be typically associated with one form of provision, there is often no compelling reason that only that particular type of provider can provide the service. We may implicitly assume that private firms should provide retail services, that the voluntary sector should manage local youth sport and recreation leagues, and that some level of government should be charged with providing security function. However, while it is certainly possible to show that specific services are typically provided by one type of agent, it is often possible to find countries or regions where another type of agent is used. For the three types of service identified in Table 1.3 it is relatively easy to find places where alternative types of providers are used.

Table 1.3. **Typology of services by degree of externality and type of provider**

	High Social Externality or Core Public Services	Moderate social Externality Services	Mostly Private or Low Externality Services
Government Sector	Emergency health care, primary education	Community Hall or Recreation Centre, Post Office	Bicycle licenses, Dog licenses
Private Sector	Electricity	Last remaining village shop or café, Newspaper	Dry Cleaner or Florist
Voluntary Organisation	Fire Department	Youth sport or recreation organisation	Book club or Bird watching club

Even if we categorise services into core services – those deemed essential for the viability of a community *i.e.* services associated with a very high level of social externality; services with still significant but lesser social externalities – those services that organisations or the private sector might under provide; and routine services – those that mainly benefit only the user; there is still the possibility that any of the three types of provider could be used, as is shown in Table 1.3. This opens the possibility that one approach to resolving certain types of problem in service delivery might be to use a different type of provider.

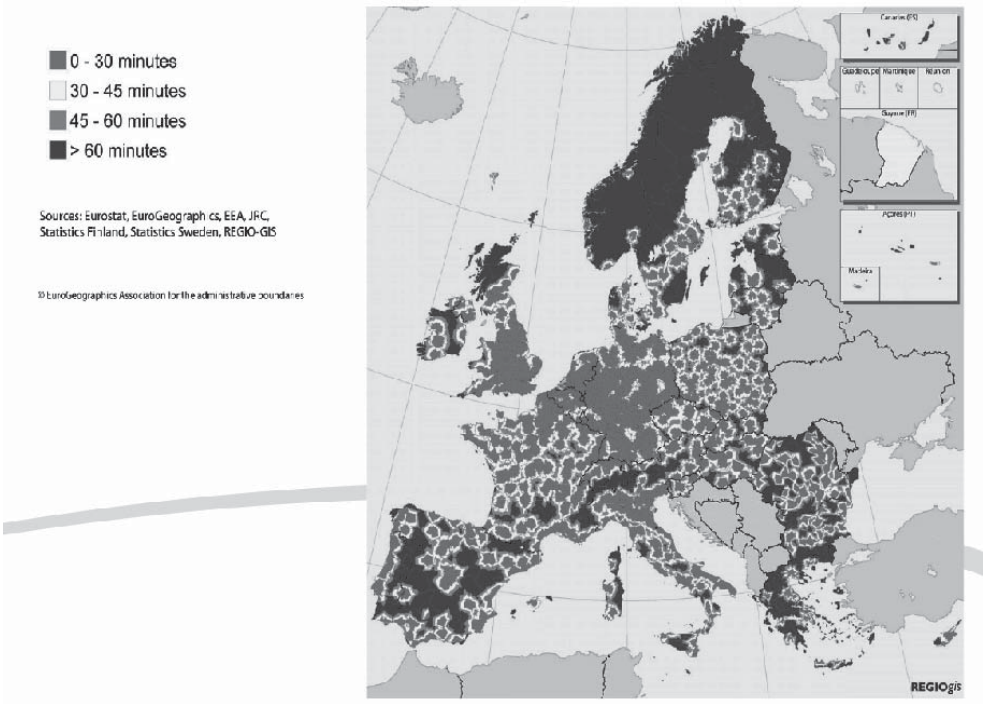
1.2. The rural service delivery problem

Although some urban residents do not have access to specific services, particularly if they are provided through the market on a user pay basis, most services are generally available to urban residents in all income classes. On the other hand, in many rural areas, especially the more remote, certain services are not available, or are available at considerably higher cost and/or lower quality than in urban locations. Although very few national governments explicitly guarantee that public services should be uniformly available across their territory, there remains a growing perception by portions of the public that spatial equality of access should be part of the statutory rights of citizens.

Access

Services are a part of the urban and rural dichotomy. Dijkstra and Poelman (2008) constructed a measure of remoteness, using a 50 000 inhabitants threshold to define cities, and 45 minute driving time threshold to consider a locality remote (Figure 1.1). They combined this measure of remoteness to the OECD regional classification into predominantly urban, intermediate and predominantly rural. The authors concluded that the distinction between rural regions close to a city and remote rural regions appear to be highly significant in most measures of welfare and growth. Remote rural regions are the only group showing negative population growth, the lower share of national GDP, lower GDP per capita, and lower sectoral productivity.

Figure 1.1. **Accessibility in European countries by road to cities with at least 50 000 inhabitants**



Source: Dijkstra, Lewis and Hugo Poelman, (2008), *Remote Rural Regions: How the proximity to a city influences the performance of rural regions*, Directorate General for Regional Policy, European Commission, Regional Focus No.1/2008, European Commission, Brussels.

In rural areas access to public voluntary and private services is more difficult than is the case in urban locations. Much of the difference reflects inherent conditions in rural areas (Box 1.3). Asthana *et al.* (2003) identified the following characteristics of rural areas that impact the costs of service delivery in rural areas:

- *Economies of scale:* unit costs in small communities tend to be significantly higher than in large ones. Because of the need to maintain a critical mass, provision rates of services tend to show lower levels than would be tolerated in an urban setting.
- *Additional travel costs*: Greater distances imply increased travel for clients and workers and, for services taken to clients, there are additional transport costs, and thus pressures on budgets.

- *High level of unproductive time*: More time spent travelling results in higher levels of unproductive staff time, which may have also an impact on considerable differences in compliance of national standards. (*e.g.* Unproductive time and the resulting lower efficiency factor for rural service provision are most acutely felt with the emergency ambulance services).
- *Additional communication costs* and difficulties in networking
- *Poorer access to training, consultancy and other support services*. Training requirements in the more remote areas are inevitably more costly to fulfil, either because staff must travel to training centres or because training needs to be imported.

Box 1.3. **The limitations of transport infrastructure policies in increasing access to rural regions**

Transport infrastructure policies have been commonly used by governments as the main means to improve accessibility to remote peripheral areas and to promote economic development. Over the last few years, the European Union has devoted around 50 % of all the resources for the development of rural areas to transport infrastructure. Based on the evidence good infrastructural endowment is essential to achieve economic growth but the returns of additional investment will differ depending on the characteristics of the region. For example, regions that are well connected to national and international networks with a skilled population in place will benefit from additional investment in infrastructure and experience greater economic growth. On the contrary, in peripheral regions, greater new investments in infrastructure or greater investment in neighbouring regions often increase vulnerability to competition due to lagging human capital development. In addition, the premature exposure to competition increased rather than decreased the likelihood of experiencing negative effects such as skilled labour migration. For these reasons, a holistic investment strategy for rural regions should consider several factors like:

1. the real return on such investments;
2. the appropriate time to invest; and
3. how the investment fits within the wider framework of strategies and link with other investments.

Source: Rodriguez-Pose, Andrés (2008),), *Session* IV, OECD Rural Development Conference, *Innovative Service Delivery, Meeting the Challenges of Rural Regions*, Cologne, Germany 3-4, April 2008, *www.oecd.org/gov/regionaldevelopment/cologne.*

Distance, critical mass and density

While large places always have more capacity to provide both a broader set of services and a larger number of providers of the same service, there are other important factors that affect rural service delivery. The spatial distribution of the population is a geographic feature of rural areas that makes service delivery difficult. In addition, services are more challenging to produce in rural areas where local demand is limited because they cannot be stored and are difficult to export.

Compared to the production of goods, the service sector has additional complications. Most goods are storable, so the producer has the opportunity to maintain an inventory that can be used to meet customers' needs when demand is high. Conversely, when demand is low production can continue to take place in order to rebuild the inventory. This allows the enterprise to operate on a stable basis even if demand fluctuates. Services by contrast are not readily storable, which means that it is common to have either excess capacity or inadequate capacity if demand fluctuates significantly. Either situation leads to higher costs of production because of surges and drops in resource use. In addition, services tend to require some sort of direct contact between provider and supplier. This, in conjunction with the difficulty in storing, tends to limit any specific service provider to a particular geographic territory or market area. While some customers might be willing to travel long distances to deal with a particular service provider this is not the typical situation. As a result the enterprise may not be able to expand to a more efficient size because it has no way to increase its customer base.

Going beyond the obvious potential of larger places to support both a wider variety of services and a greater number of entities that provide any particular service, there are additional factors that contribute to the challenge of providing services in rural areas. While the majority of these challenges have always been present they have become more significant as pressure for a more equivalent level of services between rural and urban communities increased. One of the most important factors is a typically higher cost of providing services in rural regions that reflect the underlying geography. These spatial challenges have three central dimensions: distance, critical mass, and density (OECD, 1993). The challenges both make services more expensive to deliver, and more vital, if the full potential of rural areas is to be achieved.

1. *Distance is a defining concept of rurality.* Rural areas are far from major urban centres and this makes all forms of connectivity more expensive. Roads are longer and cost more to provide. Transport times are significant. Power lines have to be strung long distances

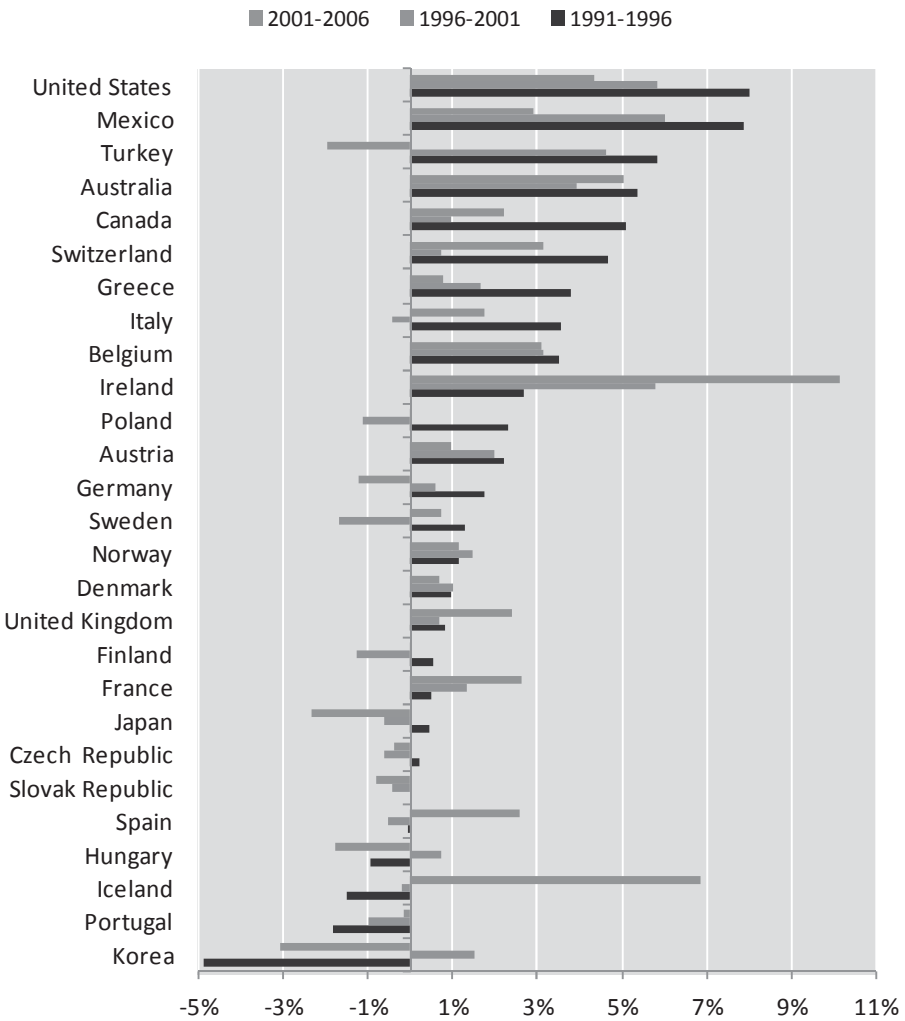
and suffer line losses. Moreover within a rural area distance imposes similar burden because of the extensive geography. While some technologies (ICT) have reduced the distance penalty facing rural regions, the majority of the ways rural people exchange goods services and ideas are still subject to distance penalties.

2. *Low levels of population in rural regions make it hard to achieve a critical mass.* In many countries the rural population is falling, while in parts of other countries it is expanding (Figure 1.2). Even in those countries where the rural population is expanding we find that only certain regions are experiencing population growth. For many rural regions population is low enough that it is difficult to achieve scale economies of production of many goods and services, including public services. Even ignoring the burden of increased transport costs there are often too few people in a rural region to allow services to be provided in the same way that is done in urban areas.

3. *Distance and low population levels result in low density***.** The low density of population is a crucial factor in many rural regions. In urban areas a concentration of population in geographic space facilitates connectivity. In rural regions people tend to be dispersed across much of the territory, which makes connectivity harder to achieve. In those rural region where the population is clustered in a small number of communities it is may be possible to reach some degree of critical mass, but in rural regions with a large but dispersed population the costs of connecting people through markets or government action are high.

Figure 1.2. **Rural population growth in the last decade**

OECD regional classification



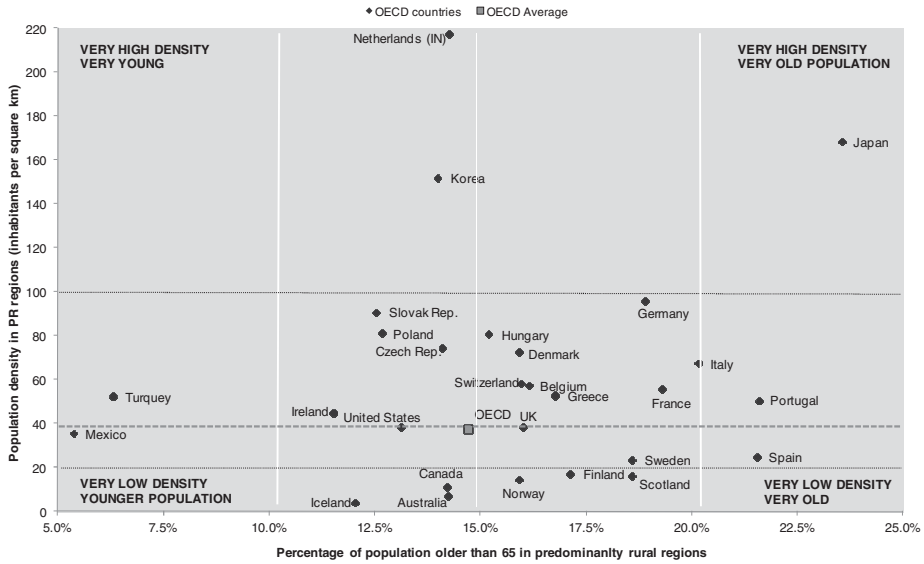
1. Base year UK (1993); Czech Republic (1992); Poland (1990); Slovak Republic (1995)

2. Austria, Belgium, Spain, France, UK, Greece, Hungary, Ireland, Italy, Mexico, US (2005)

Ageing population

An aging population structure, and in some cases a shrinking rural population, place additional strain on rural service delivery (Figure 1.3). As the population ages the mix of services demanded tends to shift and this may require new investments or outlays to increase the supply of the services demanded by seniors. While it may be possible to find some cost savings by reducing outlays on services consumed by younger people, it is unlikely that the cost savings will cover the cost of meeting seniors' demands. Further, many of the services seniors consume are considered to be core entitlements by OECD countries, so it is difficult to restrict availability. Moreover, as seniors age and become more infirm the annual cost of looking after each individual tends to rise significantly. Contributing to this problem is the influx of older individuals into some rural regions. Finally, there may be difficulties in attracting sufficient workers into careers that serve seniors, because there are so many to be served and a relative scarcity of those of working age. To attract more workers higher wages are required, which once again adds to costs.

Figure 1.3. **Dispersion and ageing of the rural population**



Source: OECD Regional Database.

Decreasing willingness to provide high levels of subsidy for rural services

An important factor in explaining the increased difficulty in providing rural services is the reduced willingness of many national governments to subsidise rural service provision. As the scope of government activity has expanded over time there are increasing demands on available public revenues. Further, when governments find themselves in a long-run deficit situation they inevitably look for places to reduce costs. To the extent that rural residents are not a major interest group it may be easier to reduce support for rural services, especially if government can argue they are simply spending the same amount per person, wherever that person lives. The New Rural Paradigm (NRP) argues strongly against subsidies, especially subsidies that are entitlements (Box 1.4). And while the NRP does endorse investments few OECD governments, to date, have made a persuasive case for investment based support for rural service delivery.

Box 1.4. **New Rural Paradigm**

Ideally, rural policy should enable each area to embrace a more mixed range of tactics for successful and sustainable development, drawing from its particular assets and resources and generating new approaches to economic, social and environmental challenges. The OECD New Rural Paradigm (2006) calls for changes in the conception and implementation of rural policy from a traditional, sector-based approach to one that is place-based (see table below). Key ingredients in this change are:

- a development strategy that covers a wide range of direct and indirect factors that affect the performance of local firms;
- a greater focus on endogenous (local) assets and knowledge and less of a focus on exogenous investments and transfers;
- a collective/negotiated governance approach, involving national, regional and local government working with other stakeholders.

	Old approach	New approach
Objectives	Equalisation, farm income, farm competitiveness	Competitiveness of rural areas, valorisation of local assets, exploitation of unused resources
Key target sector	Agriculture	Various sectors of rural economies (ex., rural tourism, manufacturing, ICT industry, etc.)
Main tools	Subsidies	Investments
Key actors	National governments, farmers	All levels of government (supra-national, national, regional and local), various local stakeholders (public, private, NGOs)

Source: OECD (2006), The New Rural Paradigm: Policies and Governance, OECD Publishing, Paris.

Increasingly diverse rural population

Rural populations are becoming more diverse. Different groups seek different bundles of services, and many in rural areas increasingly go elsewhere to find them. Rural areas are typically seen as being made up of homogeneous communities with a relatively consistent set of values and needs. This may have been true in the past when rural places were relatively unconnected to the rest of the world, but now, especially in peri-urban regions, there is a large amount of variability in the nature of the people who

live in villages. The majority of the residents in a village may still be able to trace their roots back multiple generations, but a significant minority may be newly retired people, second home residents or newcomers who commute to a city for work. The result is a fragmenting of demand and a population where significant shares of people choose to obtain goods and services away from the place where they live. This means that effective demand in a community may be far less than the local population would suggest.

Less than optimum technological capacity.

The service sector has seen rapid technological changes. Computerisation has been common and many professional services now use advanced technologies. Technological change in services has often led to an increase in minimum efficient scale in service provision which conflicts with shrinking rural demand. A characteristic of these technologies is a high fixed cost and a relatively low variable cost. This results in economies of scale over a significant range of production. In urban areas where there are large numbers of users the new technologies tend to reduce the unit cost of providing services. But in rural areas, because of the underlying geography that limits the number of users, these cost savings do not occur, and indeed unit costs may go up with the adoption of new technology. If governments mandate that specific technologies be used, then rural areas have to adopt them even though an older technology may deliver a roughly equivalent service at lower unit cost.

The rise of complex national and international supply chains

The creation of complex national and international supply chains has led to lower levels of rural services. Growing vertical integration in the organisation and management of how services are supplied has resulted in ongoing searches for cost savings. This is more a function of improved management practices than changes in technology, although technology enables the management change. Hallmarks of the process are: standardisation of procedures, a search for scale and scope economies, and pressures to control costs. To the extent that rural areas are inherently higher cost to serve, due to the factors identified above, there is a tendency for management of the service to search for ways to reduce costs, even if it means reducing quality or shedding service responsibility. This is certainly clear for profit oriented service providers, but is also an issue for public service providers where government sets cost control targets or limits budgets.

Limited choice

Even where rural places have access to services they typically have fewer choices among service providers, than do urban residents. Choice is valuable. It allows consumers to find the best match for their needs and it fosters competition. This means that having more providers of a given service is better than having fewer since choice allows the consumer to find the specific provider which best fulfils his or her needs. But in rural areas there is typically insufficient local demand to have many providers. This means only one or two providers of any given service because the total demand for that service is too small to justify additional providers. This not only limits choice, but it creates a situation where providers can "share the market" and face little pressure to compete or to deliver their services in a cost-effective manner. Moreover efforts by existing service providers to control costs by consolidating services in a smaller number of locations reduces choice even more. However, the internet offers some interesting possibilities for providing alternative ways to deliver services that can increase choice.

Weaker communication networks

Weaker communication networks in rural areas make it harder to deliver services efficiently. A contributing factor to the problem of rural service provision is generally weaker communication network in rural areas. Communication networks include roads, air links, bus lines, rail links, telephone and broadband. These services are all valuable of themselves, but they are also valuable because they enable other types of goods and services to be produced and distributed. Weak networks tend to raise the cost of providing services which contributes to the rural service delivery problem. Networks with multiple linkages allow redundancy and provide greater connectivity, but in rural areas sparseness and distance lead to relatively simple networks with few connections. This may lead to higher connection costs and to connection problems if one of the links is broken. For example if people have to rely on one bus a day to leave and return to a community and they miss the bus for some reason there is no alternative connection.

While communications links in rural areas are generally poorer than in urban areas they are greatly improved over what they were even a few decades ago. With better roads connections, a higher rate of automobile ownership and access to e-commerce rural residents have far more choice that in the past. Better connectivity allows people to by-pass local providers as discussed above. While the individuals who engage in by-pass are unquestionably better off, this does raise the unit costs of providing services to those still dependent on local services.

1.3. The role of services in OECD economies

Services are a major economic driver in all OECD countries and offer more scope for income and employment than the primary sector or manufacturing. In all OECD countries the service sector is growing faster than manufacturing and primary industries. A clear trend in OECD countries is for both households and manufacturing firms to purchase services externally that they once produced internally. For example, manufacturers purchase accounting and engineering services rather than employ their own accountants and engineers. Similarly, many households purchase home cleaning services as the number of stay-at-home spouse decrease. In addition, the number of "new" services is increasing. Web page design, internet service providers and personal trainers are a few examples. The proliferation of services reflects Adam Smith's observation that specialisation increases productivity. Specialisation allows the provider to become more efficient in the production of the service and the recipient to allocate time and resources to a higher value activity.

Services, especially higher value business services, are seen as a major opportunity for future economic growth in OECD countries, particularly as manufacturing moves to developing countries and raw materials play a smaller role in the global economy. As world trade becomes more open and capital more mobile, it is crucial that countries focus their investments in sectors where they are competitive. Service growth is emphasised because a significant share of services are not tradable, and because OECD countries have a comparative advantage in providing the high levels of worker skills and well-developed business environment that can provide sophisticated support and co-ordination functions required by many providers of advanced service. Services are key inputs to other sectors of local economies. Thus, the service sector can be seen as providing a foundation for the community. Services allow labour to be more productive and they are an input to manufacturing and primary production. In addition services are increasingly direct contributors to the exports from regions. For example, tourism, higher education, wholesale and distribution functions all bring income to host regions from outside purchasers, in the same way as exports of agricultural commodities or manufactured goods.

The availability of certain services has also become a pre-condition for the viability of a particular place. These include: basic infrastructure - electricity, good roads, water; basic human services - access to emergency health services, proximate primary education; and some retail establishments - shops, restaurants, gasoline stations, banking facilities. Basic central place theory suggests that the number of services increases with size of place and that as a place grows not only does it get more

services, but also more providers of particular services, which provides both variety and competition. This means that larger places have an inherent advantage as far as services are concerned, ignoring any cost differences that may further penalise rural service providers.

In rural regions services play a similar role as in the urban and national economy. The national trend to a larger role for services holds in rural regions as well. Few rural regions still depend on the primary sector for the major share of income and employment. Manufacturing in rural areas remains an important option, but it faces considerable competition from developing countries for low-skill routine products and from urban regions of the OECD for more flexible high-skill products (Freshwater, 2002). Even in those rural regions where manufacturing remains healthy, a strong service sector is now required to support the actual manufacturing enterprises. Major opportunities for growth in employment in rural services have been identified in: health care, especially as the rural population ages; tourism, as society explores new recreation opportunities; and the provision of various environmental services, as concerns with climate change and the quality of the environment grow (Box 1.5). In addition as governments take on new roles and provide additional services to citizens the share of government employment in the service sector also grows.

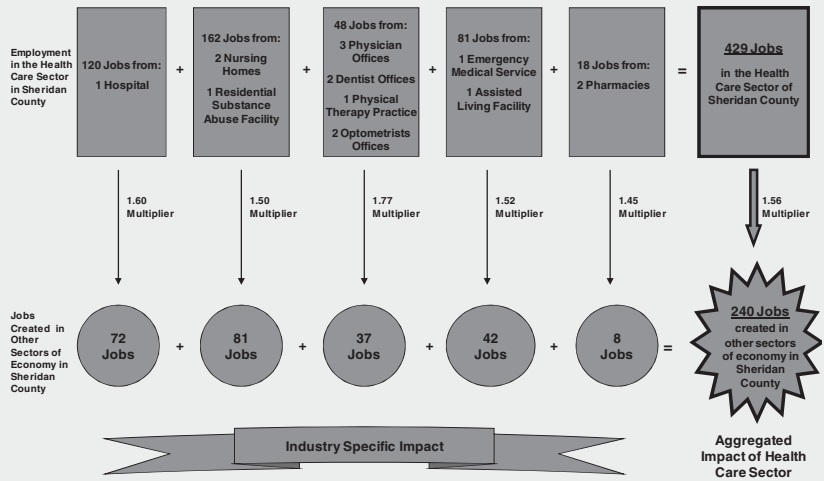
The current recession has reduced the demand for some types of services – particularly those that might be considered luxuries, and has increased demand for other services – like assistance for the unemployed and homeless. Consequently, there has been a reduction in demand for many market provided services, and an associated reduction in the labour force providing these services, which has increased unemployment. The recession has also stimulated demand for government and voluntary sector provided services, but at a time when their capacity to meet previous demand has been reduced by revenue shortfalls.

Box 1.5. **Health care sector as employer and purchaser**

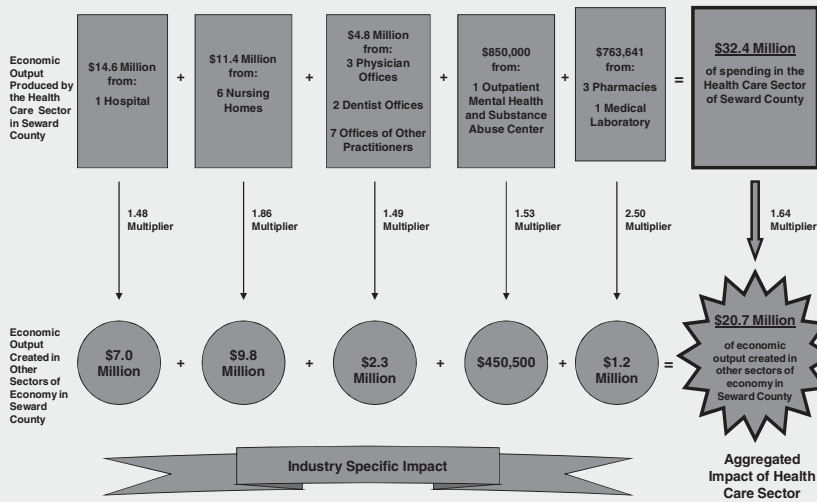
The well being of a rural community is a function of the well being of its residents. In Cologne one presenter explained that policies to build and sustain rural areas must include services that are "available and co-ordinated" while still including services for the long-time resident and meet the needs of the service delivery sector. Public services are the engines that propel local development. When the interaction between service delivery and strategies for developing sustainable rural communities and regions is considered as a whole, services can contribute to the social capital and economic development of the region. In certain parts of the United States, the healthcare system illustrates this concept, see below.

Box 1.5. **Health care sector as employer and purchaser** *(cont.)*

The economic impact of the health care sector on employment in Sheridan County, Nebraska



The impact of the health care sector on economic output in Seward County, Nebraska



Source: Mueller, Keith J (2008), *Session* III, OECD Rural Development Conferece, *Innovative Service Delivery: Meeting the Challenges of Rural Regions,* Cologne, Germany 3-4, April 2008, *www.oecd.org/gov/regionaldevelopment/cologne*.

1.4. Broad policy strategies to overcome the rural problem

In this section, the focus is on broad policy strategies that can be used to overcome the particular problems described in the preceding section of the paper. These categories of approaches do not provide a particular solution, but, they do provide ideas that are not specific to a particular circumstance and place.

Aggregating demand

Too little demand at any service location leads to a search for ways to increase the customer base. Too small a demand for locally provided services is one of the most common reasons for problems in rural service delivery. Demand weaknesses arise for several reasons. Either population is falling, leading to a reduction in demand, for example, too few children to keep the local school open. Or, demand may be falling due to by-pass, if some community residents obtain their services elsewhere. Alternatively, demand may be inadequate, if technology has changed to increase the minimum efficient size of service provider.

Consolidation, co-location or merging similar services

Consolidation involves closing some service locations to increase the number of people using those remaining open. It increases effective demand by increasing the size of the service territory for each remaining location. While consolidation can work it may lead to an increase in unit service costs because either the users or the service provider have to incur higher travel costs to get to the remaining service points. If the service users pay for travel costs it may appear to the service provider that consolidation is an effective approach. But even in this situation the increase in demand is likely to be less than was anticipated because those individuals facing the highest travel costs will typically reduce or terminate their use of the service. In situations where the service provider has to absorb all or some of the travel costs, consolidation is generally a less attractive option. For example, school consolidation typically has less cost savings than first projected once the cost of higher transportation expenses to bus children to schools that are further away is considered.

Putting multiple services in the same physical location or co-locating is another approach that seeks to build demand (Box 1.6). The main advantages of co-location are that it can result in a cost saving if basic overhead costs are pooled (economies of scope). These might include: energy, security and administrative expenses, which can often be reduced significantly through co-location. The other main advantage is that users, who incur travel costs, can combine trips and save money and time. If post office services are consolidated with a shop, people can obtain their mail and purchase food in one trip.

Box 1.6. **Multiservice centres**

In many countries, the gap in rural public service provision is being filled by One-stop-shops (OSS). An innovative service delivery model, OSS operates like information hubs and provides access to a diverse number of programmes from one centralised point. The result decreased provider costs and increased access by rural dwellers to necessary services. OSS can take numerous forms: *i*) it can be a single window transaction centre – facilitating application to a multitude of services from one access point or *ii*) it can be a physical location going beyond mere application to full service on the spot delivery. In the latter form, the type of service offered by OSS is much more comprehensive and includes anything from education, childcare, government information, referrals and advice, health/elder care, social support services (rehabilitation, housing support), to cultural and recreational activities. Driven largely by community need and involvement these "all purpose" service centres are expected to continue to grow in rural areas because they allow governments to provide rural services on the basis of cost-efficiency. Nonetheless, there are certain problems associated with OSS in rural areas. First, different administrative cultures in one space can lead to operation and management conflict. Second, there are constraints on the development of services and the different activities that can be offered due to the structure chosen (*i.e.*, school building with limited access) or the different needs of service providers. Third, rural communities typically have difficulty procuring funding which raises questions about the long-term viability of OSS in the face of financial limitations. A summary of the advantages and disadvantages of OSS for users and providers as observed in Scotland is provided in the table below.

One stop shops advantages and disadvantages in Scotland

Advantages	Disadvantages
USERS:	USERS:
• Services with greater flexibility and more user-friendly with better facilities	• Centralised location with sometimes restricted access
• Improves proximity with access for all including lower income users	• Inconvenient location *i.e.* schools structure but non school activities
• Saves on time, cost, and travel	• Common facilities diminish privacy
• Improves community confidence	
PROVIDERS:	PROVIDERS:
• Enables local service delivery,	• "Subpar" technology
• Creates a collaborative working environment	• Difficult to maintain staff
• Allows for higher quality of services	• No dedicated space
• Cost effective	• Less direct client contact

Box 1.6. **Multiservice centres** *(cont.)*

Variants of OSS are visible across OECD Member countries, for instance the Rural Transaction Centres (RTC) Programme in Australia helps small rural communities establish locally run and self-funding centres that either introduce new services or bring back services that were no longer available. Since its introduction in 1999, over 200 RTCs have been approved for assistance under the programme. Because a RTC programme field consultant assists in the initial community consultation and feasibility study, the programme considers well in advance community needs and adapts accordingly. Thus RTCs do not compete with other planned services, and usually include: financial services, postal and telecommunications access, federal state and local government services, insurance and taxation, printing and secretarial capacity. These centres employ from one part-time employee to four full-time staff. Funding from the central government covers the capital costs of establishing a RTC and subsidises the operating costs during the early operation stage, if necessary. The RTCs have been integrated into the Australian Government's new streamlined Regional Partnerships programme.

The Finnish equivalent of the OSS is the *Citizen Service Offices* which allows for the provision of services (whether public, private, non-for profit or mixed) from a single outlet. The objective is to offer citizens a single outlet for services that are suitable for joint management, *i.e.* municipal district court, tax and work administration, National Pension Institute and other regional and local authorities' services. The services provided include reception and handing out public documents and information, advice concerning the institution of proceedings and processing of matters, and support in the use of electronic services. The aim is to ensure, by means of joint, customer-oriented services and efficient utilisation of information technology, a sufficient and high-quality service network, increase the productivity of the local service network and reduce the cost of provision.

Sources: Bryan, A., Bryden, J., Kirsty, H., Rennie, F., and Young-Smith, L., (2007) *Critical Factors in the Success of One Stop Shops as a Model of Service Delivery within Rural Locations,* Scottish Executive, Australia: Department of Transport and Regional Services, Australian Government; OECD (2008), *OECD Rural Policy Reviews: Finland,* OECD publications, Paris.

Service merger takes services that are in a sense substitutes and combines them into a single entity. In sparse areas of some countries churches from different Protestant denominations have combined their congregations to create a single group that has enough members to be viable. Another example is the merging of several weak local newspapers that have an overlapping market to create a single regional paper that has more viability. Of course it is possible to adopt more than one of these approaches to attempt to achieve even greater increases in demand. Box 1.7 identifies a number of strategies employed by OECD countries that fall within this framework.

Box 1.7. **Service delivery boundaries: the case of education**

In England, during the 1980s and 1990s there were significant rural school closures, the policy has changed and currently there is a presumption against closing schools. Nonetheless the public education system in rural areas is under pressure, despite the fact that rural England schools produce higher levels of performance (except in the sparsely populated areas). This is due to changes in rural demographics and the strong drive from the Government to reform public services. In particular, the continuing drop in the number of primary school students undermines the viability of the rural education system. It is expected that if this trend continues by 2028, some 35% of the rural population will be older than 50 years. Three policy schemes are helping to reinforce the education system in rural England:

1. One approach is the formation of **Federations, Collaborations and/or Co-operations.** One example is the Callington Federation, in Cornwall, where a group of three schools reached a formal agreement that allowed the education authorities to maintain their independence, legal identity, funding and budgets but at the same time collaborate in a "soft" arrangement. In particular, the schools agreed to a shared strategic vision. In other instances a group of 12 primary schools collaborated to share resources and link ICT, catering and specialised teaching. The collaborations also featured, centrally managed support services, joint staff development, extensive community education programmes and heightened educational standards which yielded stronger management and savings.
2. Another policy approach is **Amalgamation** which involves replacing the school with another. This was the case of Whitesheet Primary School, Wiltshire where two village schools with only 64 students in total was replaced with one school and two sites. The school in its amalgamated form attracted additional students growing to 99 in total, improved the prospects of recruiting and retaining qualified teachers, attained greater flexibility and efficiency in staff and resource management, resulted in less isolation and increased shared knowledge among the staff. More importantly, it became better equipped to withstand the fluctuations in student numbers.
3. Finally there is **Extended Services** a path adopted by the East Yorkshire region of England in which more activities beyond just education are introduced. For example, additional services for the students as well as for their families and the community such as childcare and educational support.

The Russian rural education system is similarly under pressure. However, in contrast to England, the decision on the appropriate scheme is challenged not just by demographic and migration trends but by the vastness of the rural territory which is marked by limited connectivity, high wealth gaps with the poor concentrated in small rural communities; and, weak self governance mechanisms.

Box 1.7. **Service delivery boundaries: the case of education** *(cont.)*

Also in a unique twist, of the approximately 67 000 schools in Russia, 70% are in rural areas. Nonetheless, rural schools are typically undersized (*i.e.* have fewer than ten children in a classroom or fewer than 100 children in total) and struggle to supply high quality education. For this reason, the future of rural schools is a very important public policy issue. The ongoing debate surrounds:

1. the quality of education;
2. the use of new technologies and educational mobility as a means of bridging the quality gap between rural and urban education;
3. education as a social lift for rural youth;
4. accessibility of higher education to graduates of rural schools;
5. secondary schools, vocational training institutions in rural areas and changing labour market needs;
6. social functions of educational institutions in rural areas;
7. the role of rural schools in preserving/building local communities.

To this end, the government is considering the following approaches: *i*) improving the technological infrastructure for education; *ii*) Amalgamating but remains wary of the social and infrastructure costs of transportation between schools; *iii*) Collaborating, Co-operation and/or Extended Services *e.g.* turning the small schools into affiliates, offering different functions such as libraries and vocational training.

Sources: Russell, Graham (2008) and Kortunov, Andrei (2008), Session II, OECD Rural Development Conference, *Innovative Service Delivery, Meeting the Challenges of Rural Regions,* Cologne, Germany 3-4, April 2008, *www.oecd.org/gov/regionaldevelopment/cologne*.

Alternative delivery mechanisms

The easiest way to alter delivery is by changing the times of availability. In a village where a large proportion of the population commute to employment elsewhere, a shop may have very little business during normal business hours. But by opening later in the day and staying open into the evening it may be able to attract commuters on their way home from work and considerably increase sales. Bringing services to user and the internet are two ways to deliver a service in a way that can either reduce costs or attract more users.

Bringing services to users

Other approaches are more radical, such as; adopting mobile service delivery approaches (Box 1.8). Bookmobiles bring library services to communities that are too small to have a physical library. Most farriers now travel with a portable forge to provide horse shoeing services rather than have the horse come to them as was the case in earlier times. In addition, there are mobile dental clinics that can provide services in places that do not have a resident dentist. Where the demand for services is widely dispersed it may be more efficient to reorganise how the service is provided and bring the service to the user.

Box 1.8. **Bringing services to users**

The AGnES Community Medicine Nurses Programme in Germany provides support to GPs in rural regions. The programme aims at reducing the time GPs spend commuting for home visits for routine procedures. Through an electronic devise (tablet-PC) Community Medicine Nurses (CM-nurses) can send the patients' health information in real time to the GP and, when necessary, have a video conference. Other appliances are being explored for tele-monitoring the condition of patients, such as distance blood pressure meter and digital scales operated by Bluetooth technology. CM-Nurses operate always under the supervision of a GP. The training modules for the programme range from learning operational procedures of GP practice, treatment of chronic diseases, and use of e-health equipment. Thus far 5 239 home visits were conducted with 1 050 patients, and 40 general practitioners and 30 nurses have participated in the project. More importantly, the initiative is appreciated by the physicians and the patients (approximately 90% of the patients accepted the nurse care) and it has fostered dialog among German health care institutions.

In Canada, the Western Economic Diversification (WD) supports skills in a manner that combines strengthening and growing the economy with industry involvement and provides training that fills specific gaps in the rural economy and encourages the involvement of underrepresented rural residents. To overcome the proximity issue WD worked with provincial partners to secured two trailers which act as mobile labs and deliver on-the-spot training as needed (*e.g.* auto service technical, carpentry, electrical, machining, pipefitting, plumbing, welding). An estimated 100 students are reached per year. It also supports an Entrepreneurship Learning Centre in Alberta, a video conferencing network that provides business information and interactive training opportunities. Since this aspect was introduced in 2004, over 14 000 small business owners and entrepreneurs have been served.

In Portugal, the "Net on Wheels" project uses vans equipped with notebook computers to provide access to the internet and profession training to marginal groups. Net on Wheels is an innovative community project that serves five

Box 1.8. **Bringing services to users** *(cont.)*

municipalities of the region of *Entre Douro e Vouga* in Portugal. Its main goal is to broaden the use of technology and internet in the region. It involves several partners, such as businesses, social and cultural institutions, education institutions at different levels, and the regional and national governments. It is financed by the *Programa Operacional Sociedade do Conhecimento* (POS-Conhecimento), whose funds come from the State budget and the European Union. Through two energetically autonomous adapted vans, they provide users with 15 PC notebooks connected to the net trough mobile or satellite connections. Net on Wheels reaches out to internet services and exposes non-traditional users and areas to ICTs and the net. In particular, they have improved accessibility of electronic public services to remote and sparsely populated areas. They have also provided training in Basic ICT skills to less traditional users, improving population employability. To date, they have reached over 26 954 users, provided over 860 basic ICT skills diplomas, attended 1 176 events, visited 312 institutions and had over 225 participants in their digital workshops and taught over 267 courses.

Sources: van den Berg, Neeltje (2008), Session III; Kapitany, Marilyn (2008), Session II; Isabelle, Bastos (2008), Session IV, OECD Rural Development Conference, *Innovative Service Delivery, Meeting the Challenges of Rural Regions,* Cologne, Germany 3-4, April 2008, *www.oecd.org/gov/regionaldevelopment/cologne.*

The internet

The Internet offers the possibility to both provide services in rural areas and for providers in rural areas to offer services outside their immediate territory (Box 1.9). Telemedicine allows x-rays and other diagnostic services to physically take place in a rural area, perhaps in a mobile facility; but the actual analysis of the procedure is performed by specialists at large tertiary care hospitals in cities. On the other hand, a number of providers of high end business services now choose to live in rural areas and are able to manage their routine work with urban clients from a home office using web services and video-conferences.

Clearly access to high speed broadband capacity is crucial for rural areas to take advantage of these opportunities. OECD countries are investing in improving broadband capacity, but there is little agreement on how fast connectivity has to be in order to be an effective tool for service delivery. Part of the question has to do with the intended uses. Higher capacity connectivity allows more sophisticated uses, but many rural areas may not need really high speed transfer rates. Moreover it is important that countries and communities realise that in addition to connectivity there have to be parallel investments in technology and human skills in the rural communities for broadband investments to pay off.

Box 1.9. **ICTs for service delivery**

OECD countries have introduced different strategies to ensure increased use of technology for learning and delivering care. For example, the United States and the United Kingdom use remote pharmacy dispensers to deliver prescription drugs, which due to high costs would have otherwise been relocated.

There is also a focus on wider connectivity in rural areas. In Spain, the strategic project on the Information Society of Extremadura which is based on the fundamental principles of connectivity and technological literacy lead to the development of a powerful communications network capable of interconnecting and to the provision of broadband access to the 383 municipalities in Extremadura. Finland's, Kainuu Broadband Strategy is a regional approach taken by the Ministry of Transport and Communications. The strategy aims for full wireless coverage in the region through the Wimax (Worldwide Interoperability for Microwave Access) technology, the most cost-effective alternative for the region. The pricing for service in rural areas is comparable to that of urban customers. The strategy is part of a broader Information Society Strategy for the Kainuu Region which involves not just improving the technological infrastructure but training and support programmes, a multi-channel communication network and decentralised content production.

In Germany, around 10% of German households, mostly in rural areas, have limited (if any) access to broadband. The government launched a pilot program "Practical Solutions to Close Broadband Supply Gaps" in six "problem municipalities" to address the problem. They formed a working group on nation-wide broadband supply under the direction of the Federal Ministry of Economics. Participants to the workshop included representatives from central and local governments as well as private actors. The objective was to achieve the widest broadband coverage possible (*i.e.*, coverage of more than 99% of households) through market solution; thus limiting the use of subsidies. A broadband atlas developed by the Federal Ministry of Economics helped to identify the market opportunities for enterprises and the areas in need of government action. Preliminary findings revealed that:

- Market solutions are feasible in many areas even in sparsely populated areas.
- 20 to 30 local customers is enough to realise economically viable (wireless) solutions.
- There are opportunities for SMEs to step in due to the dearth of major suppliers in rural areas.

Sources: Knaut, Peter (200), Session IV, OECD Rural Development Conference, *Innovative Service Delivery, Meeting the Challenges of Rural Regions*, Cologne, Germany 3-4, April 2008, *www.oecd.org/gov/regionaldevelopment/cologne*; Karjalainen, S. (2007), *Bridging the broadband gap in rural areas,* presentation in the OECD mission, Ministry of Agriculture and Forestry, Including also slides from Karppinen, V (2007), *Access to broadband in remote rural areas: Developing Information Society in Kainuu Region*, Kainuun Nuotta Association, Kainuu, 4 May 2007.

Different types of providers

As noted earlier, a particular type of service is not limited to a particular type of provider. Indeed in different size places there may be quite different ways of providing specific services. In large cities in the United States one can find public universities, both for-profit and non-profit private universities, and universities that are sponsored by voluntary organisations. Some rural communities have volunteer fire departments; others have fire departments that are operated by local governments. In some communities there are for-profit village shops, in some villages there are community owned shops that provide equivalent access to services, but which operate as social enterprises. Even a service as ubiquitous as electricity can be delivered by different types of service providers. In rural areas in some parts of the United States communities in close proximity will have either, a for-profit investor owned Power Company supplying them with electricity, or a co-operatively owned power supplier, or a power company owned and operated by the local government.

Finding a new provider may be a way to stimulate demand or reduce costs. Where the current provider is having difficulty in maintaining the service an option may be to find a different type of service provider. In practice this often means either a for-profit company or a government entity turning service provision over to either a not-for-profit firm or to a voluntary organisation. This is typically seen as a "down-grading" of the service, which is still better than no service. However, it may be possible to extract an "exit fee" from the entity giving up the service that can be used to enhance the odds of success of the new provider and to keep service quality at a higher level. It is not, however, inconceivable that a for-profit firm may be able to take over a service from the public sector and find more cost-effective ways to provide it. For example, private bus firms are often able to operate in rural regions where public transit is not cost competitive.

Create a new service to achieve better outcomes

It may be possible to create a completely new service. The idea here is to provide a new service that displaces the old service in the sense that it brings about the same outcome in a more efficient way. An example may be the creation of a mobile handyman enterprise. In small places there is often insufficient business to support a full range of home repair services provided through free-standing independent firms, each having its own business location and specific activity, such as, roofer, plumber, or painter. But it may be possible to put in place a travelling handyman service that operates out of a fully equipped vehicle and is scheduled by telephone or Internet. The service could be operated in a number of ways: by a for-profit firm,

under the auspices of local government, or under the supervision of a voluntary organisation. The crucial point is that a new delivery option is created that can become a viable service provider.

Improve quality and marketing

Too often rural service providers seek to exploit a local monopoly situation and pay little attention to actively marketing their business or improving the quality of service they provide. When their customers were "captive" - limited in choice - the decline in service quality did not impact use. However, with increased mobility many users are better able to identify alternative service providers outside their community who offer better value. This results in a declining volume of use and to lower viability for the local service.

With greater choice available to many rural service users it is necessary to provide a high quality service to remain viable. One option to build demand is to invest in improving the quality of the service, and to spend money on marketing to ensure that people know the service is of high quality. With an improvement in quality "by-pass" may be reduced and demand could increase. Rural service providers still have an underlying advantage in that the local population incurs significant costs to go elsewhere, even though this travel cost advantage is no longer as strong. In addition, there is growing interest in supporting local business, including all forms of local service providers if they offer competitive products.

Conclusion

As the role of the service sector in national economies expands, residents in both urban and rural environments have growing expectations of better access to both private and public services. If rural firms and households are to play their full role in strengthening the national economy it is important that the correct set of services be in place. In OECD countries there are numerous examples of delivery mechanisms that are providing high quality services to rural dwellers and firms (some of which were referred to in this chapter). An important factor in many of these examples is "innovation" and the willingness to consider a new methodology or approach, instead of simply rescaling the way the service is provided in an urban setting. Tailoring the service delivery to better fit the circumstances of the rural area is key. This may involve: finding a different type of service provider, a different technology for delivering the service, or even developing a new service that results in a similar outcome.

Government has a central role in this process, either as a direct provider or by influencing the service delivery decisions of private firms and the voluntary sector. While it is challenging for governments to provide additional services in urban settings, due to competing claims for scarce funds, there are even greater challenges in providing services in rural regions. In rural areas the pervasive problems of low density, distance and lack of critical mass are exacerbated by additional problems, including a generally weaker incentive for private providers to play a role and problems in adapting modern technologies to rural situations. Thus, Chapter 2 explores in some detail, the role of government in this framework.

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Chapter 2

Governance and Public Service Delivery in Rural Areas

While many services can be provided without any government involvement, there are many others that require some form of government involvement. In this chapter we discuss ways that government can identify specific types of service to be involved with. The chapter provides an overview of the ways to think about the service mix in rural regions in the form of key questions and incorporates policy approaches on the ground where applicable. The questions include:

- *What services should be provided?*
- *Who should provide the service?*
- *What mechanism should be employed for service delivery?*
- *How the service delivery mechanism should be funded?*
- *Who is eligible to receive services?*
- *Who makes the decisions on these issues: governments or citizens? Or governments* and *citizens?*

Introduction

As noted in the previous chapter, there are increased expectations in the OECD countries that government is responsible for providing a broader set of services to its citizens. It is also clear that there are challenges in meeting these expectations in rural areas. There can be many degrees of government involvement from encouraging a service be provided to direct government provision (Box 2.1). The specific set of government roles in a country will depend upon social values, the capacity of firms and markets, the voluntary sector, and the territorial distribution of the population. Moreover as the challenges in rural areas are different in many cases from the problems in serving urban areas, territorial sensitivity is vital in assessing service provision strategies.

Box 2.1. **Improving public investment in services in rural regions: factors for consideration**

The availability of a strong set of public services is vital to the economic and social development of rural areas. While national government has a responsibility to ensure that core services are available, both local governments and the voluntary sector must play a key role in helping to find innovative and cost-effective ways to deliver these services. In some cases it may even be possible to find private sector delivery mechanisms. Six areas provide scope for governments to both improve service delivery in rural areas and exploit the economic potential of the human and natural resources located in rural areas. These include:

1. Ensuring that the supply of services match the characteristics and assets of the region;
2. Balancing equity and efficiency targets;
3. Introducing innovative rural-urban contracts;
4. Encouraging a "logic" of investment over a logic of "spending";
5. Building effective and inclusive governance frameworks, which:
   - Recognise the changing role for the top level of government
   - Facilitate knowledge-pooling and simplifies decision making processes
   - Engage local communities and integrates local expectations
   - Consider mechanisms for "rural proofing"
6. Supporting innovation and non traditional approaches to service delivery in rural areas

Source: Drabenstott, Mark (2008), Opening Session, OECD Rural Development Conference, *Innovative Service Delivery: Meeting the Challenges of Rural Regions*, Cologne, Germany 3-4, April 2008, *www.oecd.org/gov/regionaldevelopment/cologne.*

The availability of an appropriate mix of private, public and voluntary services in all communities is an increasingly important factor in building a competitive and sustainable economy. While rural people and firms share similar basic aspirations and needs with their urban counterparts, there are significant differences between the two situations. Moreover, as noted earlier, there are considerable differences in the situation between more densely settled peri-urban rural places and those that are more sparsely settled and in remote regions. The existence of substantial differences leads to the conclusion that the appropriate mix of services is likely to vary from place to place. The important question is not whether all populations receive the same service delivered in the same way, but whether the people and firms in each place have services that provide appropriate outcomes for their needs. This means that the ultimate test of access to services has to be framed in terms of outcomes and not inputs.

OECD governments should think systematically about rural service delivery. For governments the question of what public services to provide is complicated by the fact that it is difficult and expensive to justify treating individuals differently. Government is often challenged on equity grounds if it provides one group with something not provided to another. In addition, if a small number of standardised programs are used there are fewer administrative costs than if a more diversified policy set is chosen. This suggests that a well thought out and defensible strategy is needed if government is to move from policies that focus on equality of inputs to policies oriented to delivering equitable outcomes.

Key questions for discussion

Crucial questions facing OECD governments include: how to determine an appropriate mix of services for rural areas, and, how to finance the cost of services in rural areas when the unit cost of provision is usually significantly higher than in urban centres? The first element focuses on an appropriate mix of services under the assumption that an identical set of services may not be the only, or even the most appropriate, solution. This introduces the idea that in rural areas some services may not be needed and that other services not provided in an urban setting might be appropriate. It also allows for the possibility that services be provided in different ways in different types of place. The second question recognises that providing the same service in rural areas typically involves a higher unit cost than in urban places. This reflects lower density, greater distance and smaller populations (less than critical mass) that drive up service delivery costs. In addition, where rural incomes are systematically lower than in urban areas and where rural governments have smaller budgets, there is less potential for services to be financed locally.

Six questions provide a way to think about the appropriate mix of services in rural areas. While the questions are largely structured in terms of public service issues, it is vital that policy makers consider the contributions of private and voluntary service providers as, key potential actors, in service delivery. They can play new roles in resolving service availability problems in innovative ways. The core set of questions to be addressed is:

- What services should be provided?
- Who should provide the service?
- What mechanism should be employed for service delivery?
- How are the service delivery mechanisms to be funded?
- Who is eligible to receive the services?
- Who makes the decisions, is there a role for citizens?

2.1. What services should be provided?

In every country there are core "basic" services that individuals are entitled to receive, irrespective of their economic and social status and location. In this case, there is no question as to whether the service will be provided, although there may be differences in the level of service based upon economic or social status or location. However, the dividing line between basic services and other public services is rarely clear, and the basic services will differ from country to country depending on the nature of the social contract between citizens and their governments. While there are convergences among countries on the content of the services contained in these "social contracts" (particularly among EU countries), there are also significant differences. For example, in the U.S. public health is the responsibility of the government but most of the health care sector is privately owned and operated. In contrast, health care in other OECD countries is mainly, if not exclusively, embedded in government.

Because they are entitlements the crucial policy questions revolve around, how much variability in service availability and quality can be tolerated, and how services can best be provided? Not surprisingly, in most OECD countries, services that are statutory entitlements show fewer delivery gaps, even in rural areas. Conversely, public services that are not statutory (childcare, elderly care, adult learning) may present considerable gaps between urban and rural areas. For example, in Italy Lucatelli *et al.* (2006) investigated the differences in access to different services in the Calabria Region (a middle-income region in southern Italy). What they found was that, while basic healthcare did not show great disparities in terms of access, providing access to more specialised services to less mobile people, such as the elderly, proved quite difficult. In this sense, distance and

the territorial availability of services did matter for certain population groups.

Equity versus efficiency considerations

The discussion on services is not complete without considering the equity versus efficiency dilemma. The availability of public services is crucial for development, not just for equity considerations, but because they are the necessary condition to unlock the potential of territories and nations, as well as serving as the cornerstone to the well-being and productivity of inhabitants. Box 2.2 summarises aspects of this debate.

Box 2.2. **The equity versus efficiency dichotomy**

The OECD considers equity and efficiency to be not mutually exclusive objectives so regional and rural policy should strive to address both. Equity approaches aim to reduce financial disparities between people and places where sub national authorities are responsible for the basic public services. Efficiency approaches is based on the increasing acknowledgement of agglomeration effects and aims to foster growth in places that may already be relatively wealthy. It is widely believed that equity and efficiency policies can be complementary. For instance in the case of education more diploma holders increase the capacity to innovate, thus equity in public spending can increase efficiency. In the same way, decreasing returns on investment and excessive concentration in the allocation of public spending has limitations. The dynamic perspective is investment in already wealth regions with favourable growth potential can lead to extra wealth which can then be redistributed. Efficiency in public spending either by limiting the cost of public policy for the same results, or by improving its outcomes could increase resources available for the equity objective.

Strong public policies that ban discrimination among communities of interest have not been applied to differences among communities of place. Most OECD countries now have entrenched policies requiring equal treatment for various groups in their laws and regulations. The existence of these statutory rights forms a basis for people believing that they should not be discriminated against in ways that governments may not have intended, including access to services. If communities of interest must be treated equivalently, why should communities of place not receive the same protection? Compounding the issue, government and markets have extended the variety of services that are broadly available to most urban members of society. This causes a perception of a growing urban-rural service availability gap. It is this combination, of perceived rights to equal treatment and the existence of an ever growing set of services, which is the heart of the rural service delivery problem.

Box 2.2. **The equity versus efficiency dichotomy** *(cont.)*

Some experts believe that the rural service delivery problem will remain unsolved without a "strong value position" one that clearly affirms that "citizens have a right to services no matter where they live". Others feel that by choosing to live in more remote or less connected regions, citizens have agreed to "less than equivalent services". But no matter the view, minimum standards are important because the difficulties in accessing public services can generate or perpetuate unequal capacities and life-chances. Cost. efficiency, effectiveness and tradeoffs may conflict with service delivery frameworks that lack the full understanding of the value of social objectives, geographical coverage, and minimum standards that are non-negotiable to citizens. Thus public policies should ensure that the determination of which service for which region considers the acceptable equity versus efficiency tradeoffs.

Source: OECD Territorial Reviews; OECD (2008a), OECD Rural Development Conference, *Innovative Service Delivery, Meeting the Challenges of Rural Regions*, Conference Proceedings, Cologne, Germany 3-4, April 2008, *www.oecd.org/gov/regionaldevelopment/cologne*.

Approaches for identifying appropriate services beyond the basic set

Construct a typology of service types

One way to identify which services are important is to construct a typology of service types and determine which elements of the typology are most appropriate in particular circumstances. However there are many ways to construct a typology with each classification system providing a specific type of information. A number of typologies are described below with each being appropriate in some circumstances, but none provide a clear advantage over all others. In practice some combination of the various typologies may be needed to define an appropriate set of services for rural regions. One classification focuses on the relative importance of "public good" characteristics of different services.

Local public goods are those confined to a particular geographical area, and benefit only those who have access to them (normally limited by distance considerations). When the benefits from public goods are confined to a specific territory or locality, they become less important to the larger society in terms of spill-over effects. As a result the appropriate quantity of the public good should be determined at the community level. For those public services that are outside the core set that society deems everyone should have access to, decisions on how much to provide may be most

appropriately made at the local level. For example, public gardens provide benefits to those who see them, but those who see them tend to live in close geographic proximity. This suggests that it is these people who should collectively decide on the availability of public gardens and not the national government. In this situation one might find large spatial differences in the availability of particular services due to differences in how the local population values them and what other alternatives there are for allocating scarce funds.

Using this approach national governments would be mainly involved in ensuring the delivery of those services that have a large national public good value, or where there is a clear statutory responsibility. Other services would be left to the private sector local governments and the voluntary sector to provide if there is sufficient demand and adequate capacity.

Differentiate between services

Another approach differentiates between services that fulfil basic human needs and services that foster business competitiveness. This classification emphasises building the economic dynamism of places. Services that fulfil basic human needs focus on people - individuals and households. In contrast competitiveness services focus on the needs of business. While access to basic services is a necessary condition for rural development, "competitiveness services" can be seen as another necessary condition offering a step towards the long term viability of rural regions (Box 2.3).

Box 2.3. **Essential versus competitiveness public services**

Basic human services help build social cohesion, but do not guarantee the economic sustainability of rural regions. Not all regions know which services and which public services are key to their future. Determining, what services should be provided requires analytical tools and an understanding of the diversity and complexities in the particular rural area and the region as a whole.

Investments in public services can be made in two categories: **essential** public goods or **competitiveness** public goods. The essential group are a necessary condition for rural development, whereas the larger set of services are necessary to fully exploit the human and natural resources located in rural areas. Thus, it is important to identify and understand the right services package mix. Essential public goods are services such as roads, water, schools. They are considered necessary to ensure that economic potential of the regions is developed. In contrast, competitiveness public goods are the "unique" public goods that will unlock the regions distinctive competitive advantage.

Box 2.3. **Essential versus competitiveness public services** *(cont.)*

Each of these services can be funded in different ways; essential goods would most likely supported by central government with support from provincial or state government. On the other hand, competitiveness goods can be funded by a mix of public and private funding in a way that allows more of the funding to shift to the public sector in region that lag the furthest behind in their development.

Source: OECD Territorial Reviews; OECD (2008a), OECD Rural Development Conference, *Innovative Service Delivery, Meeting the Challenges of Rural Regions, Conference Proceedings,* Cologne, Germany 3-4, April 2008, *www.oecd.org/gov/regionaldevelopment/cologne.*

Both people and firms require access to basic services, but they each may need different things. In previous studies on the topic, the OECD (1991) classified services in four groups:

- Services to guarantee basic physical conditions and overcome locational disadvantages, such as telecommunications infrastructure, electricity and water supply (and sewage), waste disposal, roads and transport;
- Services to guarantee basic social conditions, such as education, health services and housing;
- Services to enterprises: direct or indirect aid (including information management, accounting services, training or research and development) as well as other services (transport, advanced telecommunications services, banking and insurance);
- Services affecting quality of life (sports and cultural facilities, continuing education, and information.

Because private business services are crucial inputs into other firms in the modern economy the viability of manufacturing or resource enterprises or even export oriented services, like tourism, depend upon a healthy business service sector (Box 2.4).

Box 2.4. **Different services for rural businesses**

Wisconsin, United States. The University of Wisconsin Community, Natural Resources and Economic Development (CNRED) programme has community development agents in over 65 communities in the state. Beginning in the early 1960s, rural community leaders in northern Wisconsin requested help developing other economic engines besides agriculture that would provide employment. After pinpointing their actual conditions, the role of the extension CNRED agent was redefined to encourage, facilitate and affirm local talent and home-grown ideas, as well as to serve as a resource, convener, and broker within the community and between the community and the University of Wisconsin, thereby helping the community to develop itself. Many of the CNRED agents organise and often staff local partnerships, task-forces of local government, and business councils to facilitate development.

In France, the CASIMIR Technology Centre was established in 1985 in the region of Auvergne. CASIMIR's basic task is to provide small (largely rural) businesses in the Auvergne with information and advice, putting them into contact with service providers and laboratories and providing support for specific projects. These services are provided free of charge, unlike the technical services provided by CASIMIR's subsidiary TECHINAUV. One of the centre's strengths is represented by its technological development consultants, who combine technical skills with solid direct experience in small businesses. Every five years, each consultant spends six months working in a business. CASIMIR's areas of work include industrial design and processes, engineering, food production and processing, packaging, information and communications technologies. CASIMIR also manages CORTECHS, a scheme under which businesses can receive advice and, if they take on a technical worker under 26 years old, are eligible for a grant to cover half the salary for the first year. Partially funded by the European Rural Development Fund the CASIMIR partnership comprises government authorities, two universities, four research bodies, three employers' federations and 13 private companies.

United Kingdom (Scotland). *Fusion* is a public-private partnership – a membership company with support from the Regional Development Agency, Highlands and Islands Enterprise. Its main role is to build a "sustainable network of entrepreneurs and innovators in the Highlands and Islands." It facilitates creative interaction between new and experienced entrepreneurs in the region, allowing then "to spark off each other and generate fresh new approaches and solutions." *Fusion* provides a range of services to business, such as looking out for suitable business opportunities, providing an annual strategic review service to members, bringing members together with other business people to explore needs and develop ideas in a supportive way, helping to identify funding for R&D, developing links with location- and interest-specific sub-groups, and offering opportunities for training, network and development. *Fusion* runs Innovation Award schemes sponsored by Microsoft.

Box 2.4. **Different services for rural businesses** *(cont.)*

Colorado, United States. "Economic gardening" began in Littleton, Colorado to support local entrepreneurs in rural areas. As much as three-quarters of staff time available for business support is used to provide tactical and strategic information. They have developed sophisticated search capabilities using tools often only available to large corporations. They subscribe to ten different database services and CD-ROMS which provide them with access to over 100 000 publications worldwide, and they use these tools to develop marketing lists, competitive intelligence, industry trends, new product tracking, legislative research and to answer a number of other custom business questions. They also monitor all new construction through Dodge Construction Reports so that local contractors can bid on projects. In addition, they track real estate activity and have access to the market reports of national consulting firms. Their Geographic Information Systems (GIS) software can plot customer addresses as well as provide demographic, lifestyle and consumer expenditure information. They also monitor local businesses and vacant buildings and projects. Finally the information component also includes training and seminars in advanced management techniques such as systems thinking, temperament, complexity theory and customer service strategies.

Sources: www.uwex.edu/ces/cnred; www.casimir.org; www.fusionlinking.co.uk/TOP.html; www.littletongov.org/bia /economicgardening/default.asp., OECD (2008b), *OECD Rural Policy Reviews: Scotland, UK,* OECD Publishing, Paris.

Identify gaps in supply and demand and determine the cause

Another way to categorise services is to look for gaps between supply and demand and determine the cause of the gaps. With this approach it is possible to identify those services causing the largest problem and begin to determine why they exist. The LEADER Observatory of the European Union has focused on the gaps between supply and demand of public services, by mainly focusing on the suppliers in terms of distance, adaptability quality and price. The gaps between supply and demand have led to incomplete markets in rural areas, mostly hurting sparsely populated and remote areas. One problem with the classification of public services based on supply and demand is that it tends to be sectoral and more commonly viewed from the supply side. The LEADER approach does not look at the region as the focus of analysis, but remains at the level of sectors or individual services. As will be further explored, not having an integrated approach may produce inappropriate strategies which do not consider the impact on other sectors, "customer" preferences and satisfaction.

Classify based on how services are provided

Some authors have classified public services by the mechanics of how services are provided. Hindle *et al.* (2004) note that the territorial perspective of service delivery is crucial. In their own words: "It is worth distinguishing services by the way delivery is organised because resultant travel distances, travel times and economies of scale are major determinants of service costs." For example, services can be distinguished by whether service providers are concentrated in a single location, which requires gathering demand and assuring transport to the points of delivery; or are distributive tasks, which requires direct provision to homes or other fixed points on a regular scheduled basis. In either case transport costs become important.

"Gathering tasks" make the costs of individuals connecting to the service delivery point particularly sensitive to geo-demographic characteristics of the area as they affect decisions on vehicle capacity, utilisation, and direct travel costs. Examples include home-to-school transport services, day care centre transport, ambulances, and special schools transport. "Distributive tasks" imply that, for delivery routes to be completed in acceptable times there will often be fewer deliveries or collections per route in rural areas with lower population densities and also a need for more vehicles and staff per head of population. Examples include, road maintenance, winter gritting, police patrols, refuse collection, mail deliveries, and hedge and border cutting. (Hindle *et al*., 2004)

Classifying services by the recurrence of use can help in understanding the demand for localised services, or the "tolerance" for more "delocalised" services. Commonly, measures focus on the supply (delivery) side of the market and less on the demand (users). A classification based on usage would show timing commonalities between services, which can then be reorganised around economies of scope, and inter-sector co-operation arrangements:

- Emergency services (for example: fire protection, ambulances, police, etc);
- Scheduled recurrent services (for example: garbage collection, postal services, education and school transport, clinics, groceries, petrol stations, etc); and
- Sporadic services (for example: hospitals, public administration services such as pension and unemployment benefits, taxes, etc).

Link the services to the region

Beyond the basic set of services that all citizens are entitled to, the specific services made available in rural regions should reflect the characteristics and potential of specific places. Network based services should receive a high priority because so much of the modern economy rests upon their availability. In addition, because of the nature of a network, all citizens benefit from the expansion of the network, not just the rural populace. Investments in human capital can also be justified in almost all cases because not only do they provide potential local development benefits, they also create the opportunity for individuals to relocate and gain employment in another place if their current community or region is unsuccessful (Box 2.5).

Box 2.5. **Link the "right services" to the "right region" and to the overarching regional and rural development strategy**

Policy makers should not only distinguish between services they must go a step further and:

- **Link the "right services" to the "right regions":** Creating as much alignment as possible between the service delivery geography and the economic development of the region as a whole is one way to exploit economies of scale.

- ***Link the service package to the regional governance strategy for the region***: Regional governance is considered by the OECD to be a critical issue for crafting a strategy to seize a regions competitive advantage. It is considered a prerequisite to prioritising public service investment but regional governance in most rural regions is often uncertain. In many instances jurisdictional lines prevent the formation of critical partnerships needed for regional governances.

Determining the strategic location of services, the continuum of care approach

Healthcare is a driver of the overall community well being. Rural healthcare has the potential to generate economic vitality and create professional, non professional and ancillary employment opportunities. One way to improve access to healthcare services in rural areas and take greater advantage of these opportunities is to adopt a "continuum of care" approach. The continuum concept places less emphasis on the health care institutions, providers, and types of care aspects and more on the appropriate "modalities" for delivering services and "which services" should be delivered locally. In this context, healthcare services and social services are integrated into "a total mosaic that supports the quality of

Box 2.5. **Link the "right services" to the "right region" and to the overarching regional and rural development strategy** *(cont.)*

life in rural communities". One of the benefits of this approach, individuals can access the continuum at different stages and move back and forth between stages as needed. Further, the continuum provides healthcare system planners and policy makers with a framework that focuses on individual and population health. It would also serve as a way to assess public and private policies designed to ensure that rural residents receive appropriate health care services, in a timely manner, and in a place that optimises care effectiveness. The case of *Whatcom County, Washington*, illustrates this approach. In the county, they are pursuing a "Perfection Initiative" project. As part of the project, they designed a patient centred system without boundaries across the continuum. Within this system, care is provided by a team of professionals that includes the patient. Care co-ordination is done through agreed upon protocols among the members of the team. There is also, health information support for clinical decisions and the patient is able to self manage his/her care. Preliminary findings reveal that the optimum circumstances for this approach include: it being locally developed, with stakeholder buy in and a commitment to the process, as well as community engagement.

Care across the continuum

Stage 1	*Stage 2*	*Stage 3*	*Stage 4*	*Stage 5*	*Stage 6*	*Stage 7*
Personal Behavior	*Emergency Primary Care*	*Routine Specialty Care*	*Inpatient Care*	*Rehabilitative Services*	*Long-term Care*	*Palliative Care*

Sources: OECD (2008a), Mueller, Keith J. (2008), *Session* III, OECD Rural Development Conference, *Innovative Service Delivery, Meeting the Challenges of Rural Regions, Conference Proceedings,* Cologne, Germany 3-4, April 2008, *www.oecd.org/gov/regionaldevelopment/cologne*.

2.2 Who should provide the service?

The question of who delivers services, including public services, has no simple or constant answer. It is clear that in rural areas of OECD countries there is an ongoing rebalancing of who delivers services. In this process the responsibilities of government, the private sector and the voluntary sector change as conditions change over time. In particular there are shifts between private sector and government, between the private sector and the voluntary sector, and between government and the voluntary sector. This is true even for public services, where there is some broad social interest in ensuring that citizens have access to the service. While the first reaction may be that government should be the provider, in some instances, it may actually be more effective to rely upon either the voluntary or the private sector (Box 2.6).

Box 2.6. **Who should deliver services?**

In Chapter 1 the importance of recognising that a specific service could be delivered in a number of ways and by different types of providers was established. Because a service such as the local water supply is provided by a private company in a large city does not mean that this is the most appropriate way for the service to be delivered in a rural environment. In some rural areas it may be more efficient to rely upon a local government to deliver the water to customers. In other cases a group of households may establish a voluntary water supply organisation and in still other cases individual firms and households may supply their own water independently through private wells.

The choice of service provider is a part of the larger decision of what service is to be provided and the form in which it will be provided. It is increasingly important to make these decisions simultaneously because if one aspect of the service delivery approach is made prematurely it may in effect pre-determine the choice of other aspects. For example if it is decided that government will provide a specific service directly then there will be a tendency to adopt a delivery mechanism and delivery protocols that are similar to those employed in urban areas, if only because it is difficult for most governments to explain why they treat citizens differently.

The reallocation of roles is complex. In some countries, in those regions where demand is falling due to falling population or high costs of obtaining private services, there is a withdrawal of for-profit providers. In other countries where the government has reduced the regulatory burden in terms of how services must be provided there is new interest by private providers. Similarly, government may be stepping in as a provider, if a service is deemed essential, by taking over from either the voluntary or private sectors. And, where government reduces its service levels to small places that are challenging to serve, there is often a local response through the voluntary sector to try to keep up some level of service availability. As a result, rural areas are seeing growing differences in service availability and delivery provider between those areas that have good access to urban centres and those that are more remote.

In rural areas there is a smaller potential demand for many private services than in urban areas, but difficulty in providing those for which there may be a demand. The question of who should provide a service is in some ways easier to address in rural than in urban areas. This largely reflects a more limited scope for all forms of services due to less complex economies and societies. In addition, investor owned firms are less likely to be engaged in rural public service provision. This reduces the question of their provision largely to government or the voluntary sector. Nonetheless the scope for

private services is large. Many services in rural areas are provided by private firms, but these firms are sensitive to shifts in profitability. While they may withstand a considerable decline in business volume and remain in operation as long as they are marginally profitable, they close fairly rapidly after volume falls or costs increase to the point that zero profits are earned.

Determining which level of government should provide a specific service is an important issue. If government is to provide the service an important question is what level of government takes on the responsibility? In some countries the assignment of responsibility is clear. In federal systems there are explicit responsibilities assigned to national and state/provincial governments, and this in principle determines which level of government is responsible for a service (Box 2.7). In practice the division may be less clear. One level of government can bargain with another and influence the delivery of services that are outside its jurisdiction.

Box 2.7. **Forms of co-operation between local authorities in OECD countries**

Variety of legal forms: The forms of co-operation between local authorities may range from simple "areas of co-operation" (like Spain's *comarcas*) to associations (like the *mancomunidades de municipios* in Spain, associations in Portugal, *communautés* de communes in France or the *unioni di comuni* in Italy) or the creation of "syndicates" as is the case in the Netherlands. In Luxembourg (with the approval of the Minister for the Interior) they may involve agreements that include both public and private entities working for the joint interests of the communes concerned. They may even result in the creation of inter-municipal co-operative authorities as in Finland, which has applied the concept to a farther reaching degree: as a territorial unit, the "region" is based on municipal co-operation, entrusted with regional autonomy established "from the bottom up", with the result that, legally, the regions have the status of ordinary inter-municipal authorities. The regions were created starting in the early 1990s).

Variety of economic types: Inter-municipal co-operation may be "functional", in which case the local authorities concerned will share the provision of specific public services, usually through establishments that are responsible for this undertaking, such as Germany's *Stadtwerke*, set up under the legislation of the *Länder* which requires all municipalities to merge their service provision units into one local public company (which in half the cases is a prelude to privatisation of the merged establishment) and is applicable to transport, drinking water, waste and sanitation, etc. Sometimes agreements lead to the initiation of a sort of trade exchange between neighbouring towns. The supply of public services is concentrated in some jurisdictions, which receive compensation from

Box 2.7. **Forms of co-operation between local authorities in OECD countries** *(cont.)*

other jurisdictions benefiting from the services. This approach has been implemented is Switzerland, in particular in the area of hospital care services (more at an inter-cantonal level than an inter-municipal one) (Joumard and Kongsrud, 2003). On the other hand, inter-municipal arrangements can be geared towards more strategic local development missions and then cover a much wider field of action, sometimes supported by multi-sectoral agencies (specially in metropolitan areas).

Variety of geographical types: While inter-municipal co-operation is not a specifically rural or a specifically urban phenomenon, the distinction is significant. This is borne out by the division of inter-municipal structures into three types in France: the *communautés* des communes; the *communautés d'agglomération* (areas with a population of over 50 000); and, the *communautés urbaines* that can be set up only when the population exceeds the 500 000 mark. Evidence shows that the most extreme form of coming together (merger) only makes sense where the zones or municipalities are very close to each other geographically. There are still some agreements for the joint provision of public services that cannot be set up between rural communes at a great distance from each other. What may be considered appropriate policy for urban areas may not help much in dispersed rural communities where the delivery of high quality public services is an important tool used for regional development objectives (*e.g.* Norway). The case of the Canadian Province of Quebec also illustrates the importance of developing differentiated policies for urban and rural areas. In the course of its municipal reform, from 1999 to 2002, the provincial government was highly aware of the fact that heavily urbanised areas, rural areas and mixed urban/rural areas each required their own special strategy. So the preference went to consolidating municipalities in urban and metropolitan areas, strengthening the intermediate regional structure in rural areas, and stepping up inter-municipal co-operation in mixed rural/urban areas. This differentiating strategy aims to take into account the fact that these three types of municipal environments have different skills and above all utilise these skills in different ways, as is observed in the case of intermediate regions.

Source: OECD (2005), *Building Competitive Regions: Strategies and Governance,* OECD Publishing, Paris.

Services provided by the voluntary sector are especially important in rural areas. The voluntary sector typically plays a role when, the service is not deemed essential, there is little reason to insist upon some minimum quantity or quality of provision, and there is little reason to demand uniformity across the territory. This does not mean that the voluntary sector is restricted to providing non-essential services. Volunteer fire departments

provide a crucial service in communities that are too small to employ professional fire-fighters. And, if government chooses not to provide a service there is often no alternative but a voluntary effort to fill the gap, irrespective of the group's capacity to meet the demand.

2.3. What mechanism should be employed for service delivery?

It may be easy to choose a service provider once the specific service and location is identified. The choice of mechanism is perhaps the easiest part of the puzzle, since in practice it is usually the last consideration. Generally the nature of the service in combination with the characteristics of the region will dictate the delivery mechanism. Problems arise when an inappropriate mechanism is chosen, either because a standardised approach has been adopted, or because an appropriate mechanism for some particular region has not been identified.

An important challenge is finding a way to monitor service providers. From a public policy perspective it is important once the service delivery mechanism has been identified to identify how performance will be measured. This is critical, especially where the delivery of public services is "contracted out" to either for-profit or voluntary sector providers. In general measuring performance against some standard is the most desirable approach, but defining an appropriate standard and measurement mechanism is often difficult (Box 2.8).

The choice of mechanism may become complicated if the entity responsible for the service contracts with another party to actually provide it. The resulting principal-agent relationship requires careful monitoring in order to reduce incentives to shirk on delivery. For example, contracting road maintenance to a private construction company requires careful monitoring to ensure that the company meets minimum quality standards, since it will have a clear incentive to perform its task in the least costly way.

Box 2.8. **Monitoring performance and providing incentives**

Monitoring is an ongoing process of collecting and assessing qualitative and quantitative information on the inputs, processes, and outputs. While the role of indicators and incentives will vary with the characteristics of the contractual arrangement an indicator system is a valuable tool for solving asymmetries of information.

Italy, monitoring regional policy, setting a reward system

The Regional Policy Strategy for the Southern Region includes a performance based scheme that sets explicit targets on the provision and quality of essential services, linking it to financial rewards to the attainment of specific targets. This initiative emerged as a recognition that regional disparities where not shrinking

Box 2.8. **Monitoring performance and providing incentives** *(cont.)*

with traditional State interventions through subsidies to production. The persistent gap in the provision of essential services showed a lack in the local administrations' accountability and a general adjustment of preferences to lower expectations of citizens. These two reasons called for an incentive mechanism that could provide visibility, reshape the agenda for public action, encourage local actions, and strengthen co-operation in the context of a multi-level governance framework.

The performance-based scheme contains 11 indicators of provision and quality of education, child and elderly care, water services and waste management. The indicators were selected by the Department of Development Policies, together with the eight selected regional administrations in the south. Italy considered the participation of beneficiary regions in the process of selecting the indicators crucial. The process of setting targets and selecting their corresponding indicators went through a long process, which involved many administrations at all levels of government: local, regional and central. The incentive mechanism sets a financial reward to the attainment of the specific agreed targets. The negotiation with sub-national authorities, and considering the many variables and actors affecting the result was critical for the legitimacy of the measurement and thus, for assigning binding targets. EUR 3 billion will be assigned to eight Southern regions if quantified targets are met in 2013. A share of the fund will be assigned in 2009 on the basis of improvements on the initial situation of each region. The objectives are quite ambitious, but they can be achieved.

Mexico, micro regions strategy

The Micro regions Strategy, launched in 2001, identified the 263 most marginalised rural regions in the country and selected within these regions a number selected "micro-poles of development", the so-called Strategic Community Centres (CECs) based on their potential to assume local leadership, economic development, and the ability to influence surrounding areas from a commercial or cultural perspective. The strategy contemplated an "all government approach" oriented to co-ordinate the efforts of 12 Ministries in the delivery of public services and infrastructure investment in these CECs a minimum standard of services in 14 specific fields.

The specificity of the scope of the Micro regions Strategy (263 regions, 14 indicators) allows monitoring the advances and deficits in each of the areas of support through an objective and socially shared validation mechanism: for each of the CECs, the stated objective is to reach 14 *banderas blancas* (white flags). Each white flag certifies that a CEC has been endowed with a certain level of infrastructure or service. In practice, fulfilling the deficit of white flags in the 100% of the CECs has become a quantifiable medium term goal that orients the direction of the strategy. By the end of 2006 close to 60% of the close to 33 000 required white flags had been established.

Sources: OECD (2009), *Governing Regional Development Policy, the use of Performance indicators,* OECD Publishing, Paris; OECD (2007), and Ministero dello Sviluppo Economico (2007); UK: OECD (2007); OECD (2007), *OECD Rural Policy Reviews: Mexico,* OECD Publishing, Paris, France.

Performance-based mechanisms for resource allocation

Performance–based mechanisms which do not consider differences in starting points may be unfavourable for rural areas. In the national context, performance indicators have been used to improve public service delivery; compare regional performance; and enhance the effectiveness of multi-level governance arrangements. Performance-based mechanisms help reduce information asymmetries among levels of government, and can provide the incentives for public service providers to modify their behaviour to better reach desired outcomes. Performance-based mechanisms allow the monitoring of actors' behaviour through-out the policy process and identify (and possibly promote) continuous progress in the achievement of policy objectives. However, some problems may arise if homogenous standards are set for all regions.

Uniform national performance indicators may disadvantage rural areas. Standardised targets or measures that are based on urban conditions or urban capabilities may lead to apparent underperformance in rural regions. Local authorities in rural areas often face different situations in terms of capacities (budgetary and administrative) to meet assigned responsibilities. Establishing the right targets is critical if they are to function as an incentive, instead of discouraging performance. Establishing targets that are easily achievable for the majority would not fulfil the objective of being an incentive for improving performance. On the other hand, establishing too ambitious targets which could be achieved by just a few, would discourage improvements from those who see the targets as unreachable. This situation is particularly important when thinking about rural areas and the implementation of national performance-based mechanisms which establish homogeneous targets (particularly those which relate to accrue the provision of basic services).

The choice of performance indicators has to balance broader national objectives with the capacity of the local community. Standards can be uniformly defined or might differ by region in order to consider diverse starting conditions, resource availability or different policy objectives. Citizens' perceptions and needs are affected by local contexts (level of development of the territory) and this should be considered by policies and their measures. OECD countries have addressed this issue by either moving towards setting differentiated standards (Italy); or by national standards with mechanisms for levelling differences. Italy has implemented a differentiated system for less developed regions in the southern regions in Italy. On the other hand, the UK has implemented national essential service standards, but with some recognition of differences in starting point. Korea has national standards, but considers context variables to adjust for different regional

capacities. Norway sets standards at the central level, but groups regions which have competing characteristics (for example, considering rurality) for benchmarking and "bench learning".

2.4. How are the service delivery mechanisms to be funded?

Whether users should pay for a service should be determined by the extent of the public benefits associated with an individual's consumption as well as that person's capacity to pay. Some services rely upon user charges for their funding; others make no attempt to charge users any amount, while some other services rely upon a mix of user fees and subsidies. The decision on how to fund a service reflects a number of factors, including: the "merit value" of the service, the ease of establishing a fee, whether the service has "public good" attributes, and the nature of the entity providing the service.

Public services having high merit value are less likely to be fully funded from user charges. Where high benefits accrue to society from individuals using the service there is less scope for service charges. If a service has high merit value then there is a strong social interest in each individual consuming the desired quantity of the service. Introducing user charges will cause some consumers to use less of the service than is socially desirable either because of limited funds or because they have other expenditure priorities.

Some services have greater possibility for collecting user fees than others. In some cases the cost of collecting a user charge can exceed the value of the service. For example police protection is not based upon user charges. Instead police services are provided out of a general revenue stream. To charge each user for police protection would greatly complicate the delivery of the service and could cause some people not to report crimes since they would incur an additional loss.

Some public services have "public good" characteristics. The service is neither rivalrous in consumption, nor is it possible to exclude people from enjoying it. In this case funding through user charges will lead to considerable under provision of the service. As an example, parks provide visual amenities that are public goods. While it is possible to charge individuals for some aspects of park use – say camping, it is difficult to charge for the visual amenity aspect.

Where there is the possibility of user fees the incentives for private provision are higher. The nature of the service provider will also determine how funding is obtained. Investor owned firms typically rely upon user fees, unless they are directly compensated by a government organisation for providing the service, but even then they typically require payment on a per

unit of service basis. Governments may collect user fees but they are generally not set to fully recover the cost of providing services to any individual, even though they may be set to match total receipts and total expenditure. More typically government services are provided with either no user charge or only a modest charge that is designed to discourage excess use. In the case of voluntary service providers there is typically no service charge, although contributions to offset expenses may be accepted

Fiscal capacity of local government

In most OECD countries local government plays a central role in delivering public services. Some of these services are mandated by higher levels of government and in principle; they provide either tax space or direct funding to cover them. Other services are established by the local government and the cost of these services has to be raised either by the government from taxes or user charges. Local governments in most rural areas of all countries face considerable difficulty in finding enough revenue to deliver the level of services the local citizens and senior governments expect.

The changing demographic structure of rural areas has imposed further challenges for local governments to provide public services. Low population densities, out-migration and ageing have reduced the already small taxable base which governments count on to respond to the increased expectations of the population and to face the changing demands of an ageing society. Local governments must meet these changing demands at higher costs and with fewer locally collected resources. It is common that fiscal constraints of countries lead to under-provision of public services in rural areas. (Dur and Staal, 2008) These pressures have increased the dependency of rural localities on government grants and regional equalisation policies.

In theory, the sources of revenue available to local governments in remote areas are the same as local governments elsewhere. These include user fees, taxes (property, income, consumption based taxes), and intergovernmental transfers (Box 2.9). In reality, however, the characteristics of the tax base in remote areas restricts the use of many of these revenue sources, and the high costs of services means that local revenues are less likely to cover the full cost of service provision. Kitchen and Slack (2006) in their conclusion wonder whether or not ways exist for providing local services in rural areas in a less costly fashion or whether they should be funded differently than in larger metropolitan areas.

Box 2.9. **Decentralisation and transfers**

All governments have public finance relations between levels of government that take the form of intergovernmental transfers. Through these transfers, central government works to ensure that all local authorities fulfil their responsibility for a certain number of public services. Central government supplements the local budgets by:

- Grants earmarked to specific types of local public services
- Proportional grants depending on the amount that local authorities are committed to spend (via a matching rate that is supposed to compensate local authorities for the extent of benefit spillovers across jurisdictional boundaries)
- General purpose grants not earmarked for a specific purpose (by assessing the amount of these grants according to different formulas tied to the demographic or geographic feature of the area)

The type of transfer impacts how decisions are made and the freedom of choice in spending decisions. For example, if the transfers are earmarked the local authorities will have limited choice in spending. However, if the transfers are general purpose grants there is more freedom in local decision making.

Source: OECD (2005), *Building Competitive Regions: Strategies and Governance*, OECD Publishing, Paris.

Rural local governments in OECD countries tend to be highly dependent on fiscal transfers from higher levels of government. When service provision is considerably more expensive than local revenues, as is common in rural areas, higher levels of government can either take on the responsibility for the provision of services or transfer resources for the local government to realise its public goods and services responsibilities. Grants are also used for addressing externalities and spillover effects of service provision across jurisdictions. Grants can be of two main types: general purpose and earmarked grants. While earmarked grants are commonly used to guarantee basic public service delivery responsibilities, general purpose grants allow for more flexible allocation of resources, which facilitates the adaptation of public services to rural areas and facilitates the search for more innovative delivery strategies.

2.5. Who is eligible to receive services?

Eligibility for services should depend on the nature of the service and the value it provides. Some services are considered to be more important than others, and for these services an entitlement provision provides everyone with potential access. Other services are considered to be appropriate for a subset of the population and various means can be used to restrict access. The most obvious of these is a fee that restricts access only to those able to pay. Conversely other services may be restricted to those with low income and access is capped at some income level.

In rural areas a crucial issue is the difference between eligibility for services and ability to receive services. Distance and limited mobility may preclude eligible individuals from receiving a service, even though they are eligible for it. An individual without a car and with no access to public transportation has limited ability to access any service that is not within close walking distance. This means that efforts to improve the quality of, or reduce the cost of, providing services by consolidating them in regional centres may have the effect of effectively reducing eligibility by reducing access.

2.6. Who makes the decision regarding the preceding issues?

Due to spillover or externality effects associated with a considerable number of services there is a public policy role in service delivery. Further because the set of available services and access to public services is determined collectively, the result need not reflect individual choice. Indeed, to the extent that public services are merit goods, the results should not simply reflect individual choice. But there is still a question of how these choices are best made.

However, there may be no need for society collectively to be involved in many service availability and delivery issues. In the case of local services that are of no significance to people not in the locality, it would seem that the community should determine the answers to the questions. But even here if there is a fiscal transfer so that the rest of the population is providing funding for local services it is reasonable to allow some external review of decision and the ability to withhold funding. In the case of "essential services" that are deemed to be of national importance and are funded by the national government and provided everywhere, it would seem reasonable that decisions be made at the national level.

This leaves a lot of in-between situations. Consider an investor-owned electricity company that provides power to urban and rural areas over a large territory. Should it provide identical services in all of the territory, should it charge the same price for each service in all parts of the territory? There is no single correct answer to each of the questions, since more information is needed. As a second example, if the local government in a rural area cannot afford to establish a paid fire service and senior government will not provide funding, how much control should either government impose on a volunteer fire force that is created to fill the service gap?

A problem in rural areas is a limited ability to influence national policy decisions about the delivery of services. In most rural areas there are typically effective means to influence local government and the local volunteers who provide public services, but there is little ability to influence the decisions of more senior governments. National and state/provincial governments often make decisions based upon conditions facing the majority of the populace. And since the rural population is a minority and a relatively unorganised minority the resulting policies do not take rural interests or rural conditions into account. The result can be a policy that provides limited value to rural citizens and may make them worse off.

The importance of local democracy

Because rural interests and conditions are not identical to those in urban areas, even though the broad aspirations of the two populations are the same, the rural minority needs a way to influence policy. Sometimes out-numbered in the aggregation of preferences, a dispersed rural population that is distant from decision-making centres has no visible influence on policy. Citizens delegate the responsibility of providing public services to their corresponding authorities. Using the principal-agent framework, citizens are the principals which dictate the goals to be achieved by public service providers, which function as their agents. Rural citizens compete with urban citizens as the principals to dictate what the authorities (agents) are to do in terms of public service delivery.

One way to accomplish this is to embed a rural advocacy function in the national policy process. Typically**,** this "collective rural voice" has been organised and expressed through sectoral interest groups**.** But some OECD countries, such as Canada, Finland and the United Kingdom have put in place a formal mechanism for introducing a rural "collective" voice on public policy (Box 2.10). Each of these initiatives incorporate consultation with rural citizens and local actors, and through co-ordination provide a way to influence the policy-making process.

Box 2.10. **Local democracy**

On issues related to service delivery, efforts to engage local actors in the pre-policy development stage of rural development are growing. In Turkey the Village Infrastructure Support Programme (VISP) incorporated a participatory framework and citizen satisfaction in public services in its basic tenets. The planning mechanism at local regional bloc level of the Japan spatial plan also calls for the co-operation of national and local stakeholders in policy formulation and mandates round table discussions between local stakeholders and central government. There are also networks in place to enable local actors and stakeholders to contribute to rural policy:

1. In Italy, the *National Rural Network (NRN)* was recently created to improve rural governance, operation and planning. It was established to overcome the "sectoral isolation" of the rural development policy by ensuring integration with other policies and encouraging a participatory approach. As a centralised co-ordinating and supporting body, the NRN is well positioned to consolidate institutional partnerships and introduce overarching management. In fact, some central objectives include connecting different actors, promoting rural development polices in Italy, strengthening the performance of measures, identifying and analysing good transferable practices, preparing training programmes for Local Action Groups and providing technical assistance.

2. In Ireland, the *Irish Rural Link* is a national organisation established to represent the policy needs of its member groups. Its main aim is to: Influence national and EU development policies and programmes in favour of those who are marginalised as a result of poverty and social exclusion in rural areas. It represents at local, regional and national level the interests of rural development groups and facilitates dialogue between rural groups and policy makers. It also encourages and promotes targeted research on rural development issues works to improve the capacity of community groups to become more active in local and community development through practical assistance and advice.

3. *The Rural Policy Programme* in Finland: The Rural Policy Committee institutionalises rural policy in Finland. It represents a procedure applied in Finland through which the impacts of the decisions taken by the central government on the rural areas can be brought into public discussion. The Committee is integrated by 29 members representing nine ministries and other 18 organisations. It assists the Government in drawing up and implementing the Rural Policy Programme which has specific decisions for different Government entities to undertake under the umbrella of the "Broad Rural Policy". It also serves as a network of the different actors involved in the implementation of specific programmes oriented for rural development under the umbrella of the

Box 2.10. **Local democracy** *(cont.)*

"Narrow Rural Policy". With its broad and narrow rural dimensions, Finland aims both at promoting equity and competitiveness in rural areas. It is also a good balance between two extremes often found in OECD countries between the "grand plan" solution (aiming at integrating all policies into a comprehensive strategy, which has proved difficult to implement) and the "niche policy" solutions (which are very limited in scope and budget). The Rural Policy Programme issues periodical reports establishing the priorities for rural areas, which consist of the strategy and proposals for achieving the stated priorities. The strategy and proposals are selected in consultation and active participation of the regions

4. In Scotland, UK, *Community Development Trusts* are community organisations their aim is to achieve the sustainable regeneration of a community and are concerned with the economic, social and environmental and cultural needs of their community. Usually based in communities with low service provision, or amenities, development trusts are initiated by local people who seek a stake in the local process of change and improvement. They work with other private and public sectors organisations and are involved in a range of activities from: running a local post office; developing play parks; managing housing developments to developing renewable energy projects. They stress capacity building in rural communities, self-help and self-reliance and believe that community regeneration achieved through community owned enterprise is the best way.* To ensure sustainability and financial independence they engage in enterprise activities like purchasing and developing local assets.

Sources: Ministry of Agricultural, Food and Forestry Policies (2007), *National Rural Network 2007-2013 – il FUTURO nella RETE, http://www.politicheagricole.it/ NR/ rdonlyres/e5oux3x3iitiwmxguzl6fjkxgqyjqwrsn7kfvuljfafbthbbn36hrcajhydzswwqetp2jcbs 5megjydqwkpconnyr2b/Brochure_EN_schema_azioni.pdf*; OECD (2008a), OECD Rural Development Conference, *Innovative Service Delivery, Meeting the Challenges of Rural Regions, Cologne, Germany 3-4, April 2008, www.oecd.org/gov/regionaldevelopment/cologne; OECD (2008c), OECD Territorial Reviews: Finland,* OECD Publishing, Paris; and Rural Policy Committee web page *(www.ruralpolicy.fi/).*

However, even a national advocate has to keep in mind the diversity of rural conditions and capacities. These mechanisms are important but must be accompanied by mechanisms to gather information about rural citizen's

preferences in specific places.. Understanding peoples' preferences is a crucial issue for an effective provision of public services in rural areas. For example, the Scottish Executive Environment and Rural Affairs Department, in line with the objectives of more evidence-based policy-making, commissioned an evaluation of co-localising services, thereby evaluating the preferences of rural populations. The authors found that some people prefer local provision of services, even if it means lower quality, than co-location in a neighbouring community with higher standards (Moran, Hall and McVitte, 2007). Making rural dwellers participants in the policy debate and decisions not just increases democratic values, but allows citizens to understand the trade-offs which are inherent in the decision-making process.

Conclusion

While governments have tended to focus on their role as direct providers of public services, especially core services that are guaranteed to all citizens, they play a larger role in shaping the total set of services to which people and firms have access. A key factor in determining quality of life is access to all kinds of services. Governments must ensure that services are provided in ways that satisfy both efficiency and equity considerations across their territories. As seen in the chapter this function can be framed as resolving a series of questions about the types of services, who provides them, who has access to them and how they are funded. Most importantly, it is vital to ask who is involved in resolving these questions, and to ensure that rural residents play a role in the process.

Ideally these questions would be answered in a systematic way that involved jointly resolving all the issues at the same time. In reality decisions about services are often made in a piecemeal fashion with a focus on a particular service and often on only one aspect, such as, eligibility to receive service. Recipient input in determining service provision is vital particularly when integrated decision making is less evident. The next chapter explores ways that some member countries are working to ensure that service delivery decisions reflect rural needs as well as illustrating one way to introduce a service user perspective into the service delivery decision process. In short, Chapter 3 explores three important themes impacting service delivery in rural areas: innovation, the rural/urban interrelationship, and citizen engagement.

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Chapter 3

Designing Services for Rural Communities: the Role of Innovation and Co-design and Co-delivery in Improving Outcomes

*Government and citizens should make the decisions about public services. And, one way of dealing with the policy questions identified in the preceding chapter is more user participation through co-production schemes. Moreover, co-design and co-delivery can also answer questions about which services are to be provided and how they are to be provided. This chapter provides an overview of the role innovation and public management tools such as co-design and co-delivery can play in improving service delivery in rural regions. In addition, to co-production, it explores the benefits of incorporating long-term planning (futures thinking) and rebalancing the rural-urban relationships in designing services (*vis-à-vis *place based approach to policy design). This chapter is a result of a joint OECD-Commission for Rural Communities workshop held in London, in June 2009.*

Introduction

As the nature of public services changes in OECD and non OECD countries, the gap between what citizens and service users expect and what they experience from services becomes more visible. Also equally visible is a low and declining level of trust and satisfaction with many public services. The challenges associated with delivering public services vary. In many rural areas, especially the more remote, certain services are not available, or are available at higher cost and/or lower quality than in urban locations. Services to be provided in rural areas are often identified on a case by case basis without any thought to how they fit into the existing pattern of services already available. This isolation often extends to how services are delivered, with each service being provided through a specialised delivery mechanism. When the set of public services was fairly small and government budgets were growing over time, this approach worked adequately. But now it is important to both think about how services interact at the design stage, and to think about, how they can be linked in the delivery stage.

> In the past it was supposed that the demand for public services was homogenised so the supply of public services should be provided by people acting equally. However, the presumed homogeneity is actually diversity therefore citizens are asking for more customised services and if demand is differentiated the public service system cannot continue to be rigid. Instead, it should be flexibility and have the capacity to design and not just to execute. (Mario Pezzini, Deputy Director, Public Governance and Territorial Directorate, OECD)

Providing high quality public services in rural areas is a major challenge for OECD countries. As the number of services desired by people increases the pressures for cost control grow. Partially in response to this, the OECD has launched a services workshop series designed to encourage more targeted discussions among policy makers active in public service delivery at different levels and in different sectors of governments. It is also part of a larger effort to enlarge the comparative evidence base and identify key policy lessons upon which OECD and non-OECD member governments may draw when exploring the design and delivery of public services. In an attempt to analyse the challenges discussed earlier in a more targeted and focused format, the OECD collaborated with the Commission for Rural Communities (CRC) a specialist organisation on rural issues in the United Kingdom, for the first workshop. A mix of policy makers and urban and rural practitioners were invited to examine both a different way to manage services design and the role of different delivery mechanisms. Thus, the workshop merged twin goals: further analysing aspects of public service delivery in rural areas, and learning more about the role public management

tools can play in delivering rural services. The particular focus was on how to design innovative policies for delivering better services, including involving citizens in service design.

> There is a noticeable shift in the relations between the service providers and the users from a public sector model with the provider imposing one service to a public sector model that is introducing choice, involving more the private sector, and incorporating co design and co-delivery. (Christian Vergez, Head, Innovation and Integrity Division, Public Governance and Territorial Development Directorate, OECD)

The ideas of co-design and co-delivery fit nicely into the emphasis that OECD's New Rural Paradigm places on bottom-up investments. Because end users at the community level are an integral part of the process there are far better odds of providing services that are useful in the community and of providing them in a cost-effective way. Services that are developed with local input are more likely to reflect the most important needs of that community than are services developed in national capitals. However it is important to note that co-design still provides an important role for national governments. National priorities continue to play a part in the process, but there is an implicit negotiation that allows all the parties to have a say in the final outcome.

3.1. Designing services for rural communities, the workshop focus and structure

The workshop explored the role of innovation, rural/urban linkages, *futures thinking*, and citizen engagement via co-design and co-delivery through a discussion that was built around three-England focused policies.

Why consider innovation?

Better quality and more easily-accessible services help to determine a country's welfare and capacity to attract human resources and investments. Public services account for a large part of government expenditures in OECD countries. While public spending in key public sectors has increased, there are still large inequalities in access and use of public services (for example in the health care sector). An imperative to innovate for public services exists to improve performance and become more responsive and there are a number of examples of specific solutions to particular service delivery problems. But, there is no single route or best approach to public service innovation. The importance of innovation as a fundamental cause of growth has long been recognised (OECD 2009a). Innovation is a key

process to increase the competitiveness of regions and is currently an important theme in the work of the OECD. Correspondingly, innovation is an important part of the policy responses to the recession. Specifically, the focus is on strengthening the innovation capacity of governments and firms.

Depending on the purposes and on the combination of different techniques and tools, innovation in service delivery can take different forms. For example, it could be both a new or improved service – *e.g.* health care at home - and to a change in the rationale behind a service – *e.g.* abolish information monopolies by government and open up information for reuse by citizens (Box 3.1 for examples of innovation in education). Based on preliminary research, approaches with the citizens at the heart of service delivery are emerging as the most interesting and successful. This makes sense for both effectiveness and efficiency and improves relationships with the citizens (builds trust). Other innovations focus on better access to and transparency of information so that citizens can compare services and make informed decisions, and hold government to account. Another approach is that of user centred innovation through the reorganisation and personalisation of service delivery channels.

Recent work on innovation reveals a number of factors driving countries to consider innovative public service delivery strategies. First, there is a need to improve access to and the diversity of services. Second, tighter budget constraints mean providing services with less. Third, governments must deal with higher expectations and pressure from the public for greater responsiveness and citizen involvement. Fourth, changes that flow from structural (*e.g.* demographic) and environmental (*e.g.* climate) change are impacting the nature of the demand and supply of services in the short and long term, which means greater policy dexterity is needed from public administrations. Indeed, the scale of the demographic, geographic and fiscal challenges facing our public services requires new thinking and new practices. In rural areas, even though R&D investment is widely perceived as the benchmark for innovation, investment in education and training – human capacity development may be a stronger trigger for rural innovation.

Box 3.1. **Innovative ways to deliver higher education in rural areas**

Education is the cornerstone of rural development but, delivering education to sparsely populated areas presents with some challenges. Some institutions suffer from problems of limited capacity, poor quality, relevance and limited public funding. There is often a mismatch between the education offered and the needs of the rural regions. The "weakness" in the education structure in rural areas is related to the "uniformity" and the "rigidity of supply". One way to improve the capacity of rural dwellers is to create better linkages between formal education and *ad hoc* training. For example, in *Grenoble, France* the rural and mountain schools in isolated areas work as a network with mobile teams of teachers and technical support. In *Burggen, Germany*, a Leader group focused on capacity building for new media created a shared internet platform with school children, using open source software, for 11 municipalities, integrating the learning in school curricula. Enlarged the curricula to reflect "occurred" or "desirable diversification" of the local rural economy so that the needs of the regional economy research based measures designed to stimulate the different categories of business innovation are linked to teaching-based initiatives designed to enhance the regional skills base in its key business sectors. The *Wendland-Elbetal* region in Germany offers an interesting example. The region, one of the most sparsely populated and economically under developed regions of Western Germany, moved from anti-nuclear movement to energy expertise by engaging in diversified and specialised biomass energy production. The region used the local expertise developed to establish different education services such as the Energy Agency and the Energy Academy. This education expertise has also become an attractive characteristic to companies in search of prime locations.

As noted by the *Wendland-Elbetal* region example, the responsiveness of the education system will be enhanced if the appropriate incentives for remaining in the rural region are in place. In the Nordic countries, the emphasis is on equity and expansion particularly on the inclusion of new groups in higher education to reduce inequalities in gender, place of residence and socio-economic background. In Finland, Nokia invests in the cultural adaptation of foreign IT workers as a way to improve productivity, but also to help to retain this talent. Higher education institutions can contribute to improving human capital formation in rural areas by:

1. **Widening access to higher education**

2. **Improving the relevance of provision by:**

   Improving the balance between labour market supply and demand.

   Improving the relevance of programmes themselves. Higher education institutions are under pressure to increase regional impact, particularly in ways that generate new income streams.

Box 3.1. **Innovative ways to deliver higher education in rural areas** *(cont.)*

3. **Attracting the best talent to the region.** In numerous OECD countries talent attraction of top academics, researchers and highly skilled workers is increasingly replacing inward investment attraction as a key role for rural development agencies.

4. **Upgrading the skills and competencies of the population through adult education.**

Regional policy makers need to work closely with local higher education institutions to formulate the appropriate package to attract high potential individuals or groups of academics. *Fast Forward* is a post-graduate programme provided by Saxon Universities of Applied Sciences in Twente, Netherlands, to retain high potential graduates in the region. Over a two-year programme the *Fast Forward* trainees receive tailored management training and undergo three eight-month work assignments in different local or regional companies and organisations. High potential graduates are matched with organisations which need innovative staff who are able to contribute from day one Many higher education institutions design tailor-made short courses for regional businesses and are committed to promote graduate employability and use stakeholders and alumni networks (*e.g.* HEIs in Nuevo León in Mexico) in curriculum development. A good example is *Aalborg University* in northern Jutland, Denmark where within the *Project Organised Problem Based Learning* study programmes are organised around interdisciplinary project work to solve problem areas defined in co-operation with firms, organisations and public institutions. Training is also taking on a different role as a complement to "formal" education in rural areas by solving the "insufficiencies" at local level which is allowing for more integrated provision of services.

Sources: Yelland, Richard (2007), OECD Rural Development Conference*, Innovative rural regions: the role of human capital and technology,* Cáceres, Spain 21-23 March 2007, *www.oecd.org/gov/regionaldevelopment/caceres*; Saraceno, Elena (2008), Session II; Wedler, Michael (2008), Session II, OECD Rural Development Conference, *Innovative Service Delivery: Meeting the Challenges of Rural Regions, Cologne, Germany 3-4, April 2008, www.oecd.org/gov/regionaldevelopment/cologne.*

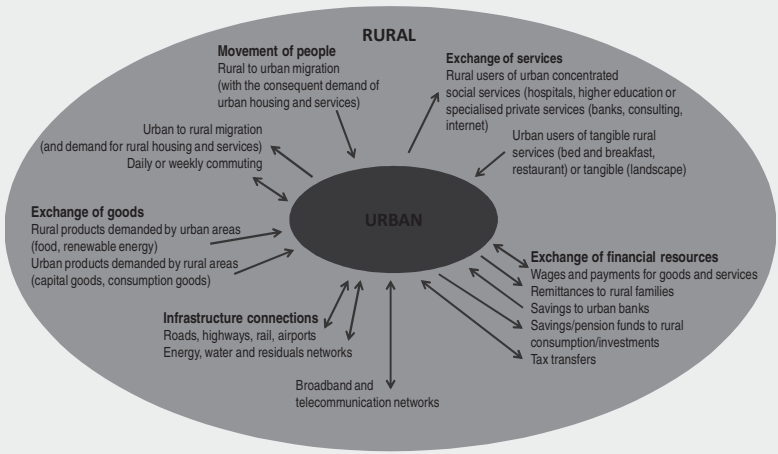
Why consider rural-urban linkages?

In all countries some rural areas are in close proximity to urban areas and provide a flow of environmental and recreational services to nearby urban residents. In some countries a large part of the rural territory is within easy reach of urban workers who commute to work from a rural residence on a daily basis. England reflects both these elements. Rural-urban linkages are the relationships between urban and rural populations. People, food, energy, water, landscape, biodiversity are but a few of the assets rural areas

can utilise to compete in national and international markets and rebalance the urban-rural relationship. These linkages comprise the movement of people; rural-to-urban, urban-to-rural migration and commuting (Box 3.2). The interconnectedness of rural and urban is an important consideration in discussions of service delivery and is at the core of the equity/efficiency tension. As indicated earlier, often the rural service delivery strategy in place was designed for an urban setting. So there is agreement that public service delivery strategies must take better account of the cascading effects of policy decisions that link rural and urban regions. How to bridge the gap in thinking between "urban" and "rural" policy analysts or to ensure that the differences of rural and urban are understood at the policy implementation phase varies. Involving rural and urban service delivery practitioners in a discussion of policies designed to impact urban and rural areas in England, afforded an opportunity to explore these issues in greater depth.

Box 3.2. **Rural urban linkages and balanced development**

Rural urban relationships are comprised of: The exchange of services (rural users of services and public goods concentrated in urban areas, and urban users of services and public goods in rural areas), the exchange of goods (rural products demanded in urban areas and urban products demanded in rural areas), the exchange of financial resources (wages and payments for exchange of goods and services, remittances and savings/pension funds sent to rural areas, rural savings in urban banks and tax transfers) and the infrastructure that connects these two types of areas (roads, highways, rail, airports, energy, water, and residuals networks and flows, broadband and telecommunication connections). The intensity of these relationships continues to increase.



Source: OECD (2009b), OECD Rural Policy Reviews: Spain, OECD Publishing, Paris.

Why consider futures thinking?

Governments across OECD and non OECD countries are increasingly adding *Futures thinking* or Strategic Foresight to their policy making portfolios. *Futures thinking* is largely about widening the perspective of policy development beyond today to take account of the future. In this framework, it aims to help policy makers see how their decisions taken today might affect the future. To help them better understand and analyse the issues and the different ways the future may develop with respect to those issues. As noted, the pressures for improved public service delivery in OECD and non OECD countries are strong. How might governments better anticipate and avoid the problems in service delivery? What are the potential sources or risks and opportunities confronting public service delivery? Can strategies be developed to reveal and take advantage of future opportunities, enabling greater use of decreasing local government resources? The discussion on futures thinking explored the role for *futures thinking* when considering service delivery policies.

Why consider co-design and co-delivery mechanisms?

With respect to public services, citizens are concerned with speed, quality and appropriateness of the various public services. Meeting these concerns requires the service provider to adopt a citizen-centred approach that matches the service interface with citizens' own quality expectation (OECD 2008b). The idea of co-design and co-delivery offers an interesting new way to create, and then provide, services. Because service users are involved in designing the types of services and how they are provided, there is a better opportunity to give people the services they want in a way they want to receive them. This approach could have great potential in rural areas where traditional service delivery approaches can be too expensive or inappropriate. Because service delivery in rural areas is to a great extent a niche business, and not a mass production process, it is important to have the end user in mind at all stages, but especially in the initial ones.

Open and inclusive policy making

As a follow-up to the 2001 widely received OECD identification of ten guiding principles for open and inclusive policy making (Box 3.3), the OECD asked governments to identify the level of the various principles being applied. Only 38% of responses cited active citizenship as being in place. Establishing open and inclusive policymaking takes time, but there is lingering hesitancy in take up, due to concerns with: delayed decision

making, hijacking of the process and administrative burdens. Nonetheless the benefits of citizen involvement are agreed.

Box 3.3. **Guiding Principles for Open and Inclusive Policy Making**

OECD countries recognise that open and inclusive policy making increases government accountability, broadens citizens' influence on decisions and builds civic capacity. At the same time it improves the evidence base for policy making, reduces implementation costs and taps wider networks for innovation in policy making and service delivery.

These Guiding Principles help governments to improve their open and inclusive policy making as a means to improving their policy performance and service delivery.

1. **Commitment**: Leadership and strong commitment to open and inclusive policy making is needed at all levels –politicians, senior managers and public officials.

2. **Rights**: Citizens' rights to information, consultation and public participation in policy making and service delivery must be firmly grounded in law or policy. Government obligations to respond to citizens must be clearly stated. Independent oversight arrangements are essential to enforcing these rights.

3. **Clarity**: Objectives for, and limits to, information, consultation and public participation should be well defined from the outset. The roles and responsibilities of all parties must be clear. Government information should be complete, objective, reliable, relevant, easy to find and understand.

4. **Time**: Public engagement should be undertaken as early in the policy process as possible to allow a greater range of solutions and to raise the chances of successful implementation. Adequate time must be available for consultation and participation to be effective.

5. **Inclusion**: All citizens should have equal opportunities and multiple channels to access information, be consulted and participate. Every reasonable effort should be made to engage with as wide a variety of people as possible.

6. **Resources**: Adequate financial, human and technical resources are needed for effective public information, consultation and participation. Government officials must have access to appropriate skills, guidance and training as well as an organisational culture that supports both traditional and online tools.

7. **Co-ordination**: Initiatives to inform, consult and engage civil society should be co-ordinated within and across levels of government to ensure policy coherence, avoid duplication and reduce the risk of "consultation fatigue". Co-ordination efforts should not stifle initiative and innovation but should leverage the power of knowledge networks and communities of practice within and beyond government.

Box 3.3. **Guiding Principles for Open and Inclusive Policy Making** *(cont.)*

8. **Accountability**: Governments have an obligation to inform participants how they use inputs received through public consultation and participation. Measures to ensure that the policy-making process is open, transparent and amenable to external scrutiny can help increase accountability of, and trust in, government.

9. **Evaluation**: Governments need to evaluate their own performance. To do so effectively will require efforts to build the demand, capacity, culture and tools for evaluating public participation.

10. **Active citizenship**: Societies benefit from dynamic civil society, and governments can facilitate access to information, encourage participation, raise awareness, strengthen citizens' civic education and skills, as well as to support capacity-building among civil society organisations. Governments need to explore new roles to effectively support autonomous problem-solving by citizens, CSOs and businesses.

Source: OECD (2009c), *Focus on Citizens: Public engagement for better policy and services,* OECD Publishing, Paris.

Co-design and co-delivery, is but one example of the innovations visible in OECD countries that have the potential to transform the relationship between service users and professionals. To further support governments in embedding these principles and better understand the challenges follow-up work focusing on the role of public management tools and particularly The Role of Co-design and Co-delivery is under way. The OECD is engaged in a study that will provide an analytical framework for the analysis of innovation in service delivery; develop a comparative evidence base of innovation practices and experiences from OECD countries; and outline key policy lessons upon which OECD countries can draw when exploring innovative approaches in the delivery of public services.

3.2. A unique approach

Focused study of three different policies

Three English service delivery policy strategies were discussed at the workshop (see Box 3.7 for more on analytical framework of the workshop). Each features aspects of co-production and is notable for taking a different approach to innovation. One is a national initiative with local projects. In

contrast, the others are specific County and District Council strategies and reflect innovative work at different levels of local government. The policies represent not just a mix of perspectives; they also showcase the challenges associated with delivering services at different levels of government in rural areas:

1. The ***DC10plus*** initiative is a partnership of local government, private and third sector organisations (Box 3.4). It delivers community capacity building and addresses digital and social exclusion across England. The projects are visible in the form of different local initiatives that are tailored to the needs of the area, whether rural or urban. DC10plus has a strategy of supporting third party intermediaries in service delivery, but without some help these partners often lack the skills, the equipment and the connectivity to actually deliver the services, particularly in rural areas, that DC10plus brings to the partnership.

Box 3.4. **DC10plus**

DC10plus is a collaborative authority on digital inclusion issues and how they impact at a local level. The network is a product of the Government's Digital Challenge competition. The ten local authorities that emerged as winners formed DC10plus and with GBP 2 million funding from Communities and Local Government. The competition provided a unique incentive for local authorities and their partners to work together to provoke innovative thought and discussion on how ICT's potential can be harnessed to impact significantly and positively on local communities. As a result, they established a crosscutting, people-focused agenda for ICT and digital media, which aim to increase digital inclusion, support business transformation and stimulate innovation.

DC10plus key themes and related projects include:

Next Generation Connectivity - creating well-targeted and innovative interventions for "next generation connectivity" (NGC) through the deployment of high-speed broadband (100 Mbs and above) using fibre, cable and wireless connectivity. One project example is *Switch on Shropshire* a GBP 4.79 million project, aimed at providing broadband access to businesses and the community of Shropshire. Another is *Firststep.com* a project developed in response to the 'digital divide' to provide quality, inclusive training for all ages.

Independent Living - improving citizens' quality of life through making access to services easier and more time efficient, basing services around customer rather than provider needs, for example providing specific technologies such as assistive technologies and remote healthcare to help people with disabilities or dependency issues lead independent lives. One project example is *Stream Independent Living* an initiative that provides IPTV-based services and content to 100 households in Hull City. STREAM gives individuals a personalised way of accessing local information and services.

Box 3.4. **DC10plus** *(cont.)*

Flexible Working – exploring ways to use ICT to increase employment. The *Aston 'computers in the home'* project aims to address the digital divide in one of the most deprived areas of Birmingham by utilising the ICT capabilities of the young people of the community.

Digital Environment – identifying appropriate enabling technologies for homes and SME's to reduce carbon footprint and tackle climate change. One project is with the *Greens shifts Task Force* set up by the UK to reduce the amount of carbon dioxide produced by the operation and disposal of computers and IT equipment. The taskforce will pilot the 'Green PC' service, which uses thin-client technology to host applications, such as email, office and internet browsers, on data centres and will use 98 percent less energy than standard PCs.

Communities Building Capacity - creating sustainable and cohesive digitally enabled communities and creating a framework to support exchange of good practice between Community and Voluntary organisations, other partners and Local Authorities fully supported by technology, building local capacity and service access. The aim is to demonstrate how brokers and champions can be fully supported by technology to build local capacity and service access. The outcome will be an ongoing network of effective practice exchange. One project example is the *Norfolk Connect Partnership* which aims to bring all of the authorities together to share information, knowledge and experience on their efforts to implement e-government; to agree joint projects that offer mutual benefits and opportunities for better joining up customer services; to prepare joint bids for funding; and to create a forum in which the authorities can work to ensure that wherever feasible and sensible the 'customer experience'. Another is electronic village halls established to engage local people and encourage the provision of ICT within community based venues.

Source: Dodson, S. (2009), "DC10plus and Norfolk Connect-Joining up for better service delivery", case study prepared for the OECD-CRC Workshop: *Designing Services for Rural Communities: The Role of Co-design and Co-delivery,* 12 June, 2009.

2. The Hampshire County Council (HCC), *rural delivery strategy* is unique in that it is overseen by a person who is an elected member of the Hampshire County Council Cabinet (Box 3.5). A large local government body, HCC has a staff of approximately 36 000 and is responsible for a budget of around GBP 1.7 billion. The strategy aims to help meet the needs of rural areas in the county now, and in the future, and to better co-ordinate the various services already provided separately by departments within HCC.

Box 3.5. **Supporting Hampshire's rural Communities: developing a rural delivery strategy for Hampshire**

Hampshire is situated mid way along the south coast of England and is one of the largest non-metropolitan or "shire" counties in England. It has a population of over 1 240 000 (2001 census) and covers an area of almost 368 000 hectares. 85% of Hampshire's land area and 23% of the population are defined as rural. The rural delivery strategy aims to address issues of rural deprivation, isolation, poor accessibility, and higher costs in service delivery. The county council's elected Cabinet made these issues a key priority. The process was led by the Hampshire County Council Cabinet post of Executive Member for Rural Affairs and shaped by the County Council's Cabinet. Developed in a targeted way, the county council focused only on improving services under its direct control or those services the council could influence. In seeking to identify the needs of the rural dwellers in Hampshire with respect these services, they prepared a structured consultation paper. This began first with a diverse group of HCC staff portfolio holders from different strands within HCC, identifying the "key" priorities for rural Hampshire. This formed the foundation for the consultation document that was developed and used for external dialogue with stakeholders. Public consultation is the norm in England. However because it is done so frequently and extensively, some policy makers worry about "consultation fatigue". Add to this the "time consuming" and "cumbersome" technical aspects that lead to a time lag that impacts the value and implementation feasibility of the initiative. In a unique, approach, HCC chose to forego the typical public consultation for a "targeted" public consultation. Thus, instead of the Hampshire county constituency at-large being engaged directly, HCC targeted 250 stakeholders a mix of public bodies, community organisations, pressure groups and volunteer groups they felt would represent well the views of residents in the county. There was also a general public engagement process via the internet and a consultation seminar which provided people with an opportunity to discuss key issues around rural service delivery in the county. The consultation responses were used to develop "action plans" to improve rural service delivery in the county. In March 2009, these plans were adopted and later approved by Cabinet in April 2009. HCC is currently in the second, and arguably more challenging, phase which involves: *i)* implementing the Action Plans, *ii)* exploring the feasibility of delivering while reducing costs, and *iii)* identifying areas of greatest need.

Based on the results of the consultation the priorities for rural Hampshire services are as follows:

- Supporting sustainable rural communities; including affordable housing, rural broadband, access to services, supporting volunteering, and community engagement.
- Providing effective rural transport

Box 3.5. **Supporting Hampshire's rural Communities: developing a rural delivery strategy for Hampshire** *(cont.)*

- Farming, food and access
- Economic development
- Climate change, including renewable energy, and making better use of the county's wood-fuel resource.

Source: Tickle, J. and D. Hobson (2009), "Supporting Hampshire's rural Communities: Developing a rural delivery Strategy for Hampshire", case study prepared for the OECD-CRC Workshop: *Designing Services for Rural Communities: The Role of Co-design and Co-delivery*, 12 June,2009.

3. The *Joint delivery of housing services in Somerset County* initiative is about the local authority providing leadership on housing issues and relying on partners for the frontline delivery of services (see Box 3.6). Two particular characteristics distinguish this experience: *i*) the delivery of private sector housing services which involves co-delivery of front line services initially between West Somerset and Sedgemoor Districts; and, *ii*) how the experience is being scaled up through the *Pioneer Somerset Programme.*

Box 3.6. **Joint delivery of housing services in Somerset**
Pioneer Somerset Programme

Somerset County is located in the South West of England. The county covers 1 333 square miles or 3 452 km². 76% of the county is classed as rural. Somerset County has two tiers of local government in addition to the very local town and parish councils. Somerset County Council delivers services across the entire county and there are five District Councils that cover smaller geographical areas within the county. The five District Councils are West Somerset, Sedgemoor, South Somerset, Mendip and Taunton Deane Borough Council. The two tiers are responsible for delivering different services. District councils have responsibility for the strategic housing role. This is a wide ranging role that covers all types of housing in all tenures. There are some specific legislative requirements, such as a duty relating to homeless households that fall within priority categories, but the role encompasses far more than legislative duties. It is concerned with all aspects of housing in a locality, including:

- both new and existing housing;
- the need for housing and related services for vulnerable people;
- providing advice on housing options available;

Box 3.6. **Joint delivery of housing services in Somerset** *(cont.)*

- provision of affordable and market housing;
- the quality of housing provided and housing management;
- the links between housing and other issues, such as housing needed to support the economy;
- social investment delivered by housing agencies; and
- the role housing can play in combating climate change.

The *Pioneer Somerset* programme is about developing shared service delivery in the context of a three tier local government structure in Somerset county. The councils within Somerset have agreed to work together to develop a vision for shared service delivery across the county: The key partners are Mendip DistrictCouncil, Sedgemoor District Council; Somerset County Council; South Somerset District Council; Taunton Deane Borough Council; and West Somerset District Council. These six councils consider this joint relationship necessary to realised the vision of improved service. They worked to develop a new strategic governance framework to deliver an agreed vision for service delivery that meets the needs of the customer and realises service efficiencies for partners. The project will develop a framework for joint working that could be used to inform other councils who are looking at models to reduce bureaucracy and duplication whilst at the same time increasing local choice and flexibility in the delivery of services to customers. Summary of outcomes sought:

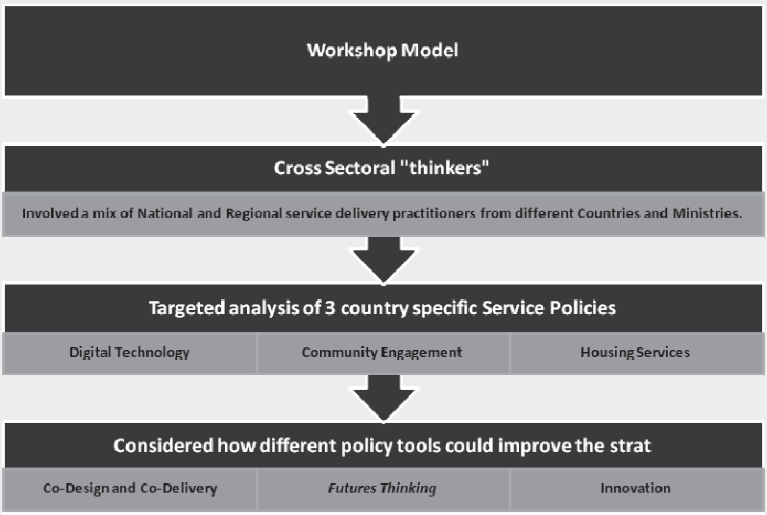
- Improved strategic leadership across the county to develop the localisation and place shaping agenda.
- Improved value for money of service delivery to the residents of Somerset
- More joined up locality working with integrated service delivery at a locality level
- Improved use of public, private and voluntary sector partnerships to meet LAA targets
- Improved and consistent customer access and improved customer satisfaction across the partners
- Raising the profile and reputation of Somerset and its local authorities, promoting those partner authorities as innovators in public service delivery

Source: Timms, I. and C. Trevelyan (2009), "Joint delivery of housing services in Somerset", case study prepared for the OECD-CRC Workshop*: Designing Services for Rural Communities: The Role of Co-design and Co-delivery,* 12 June, 2009.

Box 3.7. **Designing for rural communities: analytical framework**

To encourage robust debate participants were provided with detailed descriptions of the three policy strategies in advance of the workshop. Experts in innovation co-design/co-delivery and *futures thinking* facilitated the group sessions. And, the policy makers directly involved in developing and implementing each policy strategy was on hand to field questions.

The participants were divided into three groups and assigned a strategy for analysis. Each group had a facilitator (expert) and a resource person(s) (practitioner associated with the policy). During the morning session, each group explored more about or "unpacked" the policy. In the afternoon session, the participants provided feedback to the practitioners based on their own experiences and considered which policy tools could help improve the impact of the policy in rural areas. Specifically they discussed the benefits or limitations of the policies as well as how innovation, futures thinking and co-production could impact (or did impact) the outcomes, the overall expectations, and the policy design process.



3.3. Opening public service provision to citizen influence

Based on the workshop discussion, policy makers tasked with exploring the benefits of innovation in public service delivery are still grappling with core questions. For example: what is innovative, how much can be done, when is it good innovation—and when is it not? Workshop participants identified several factors for further consideration:

First, while the importance of innovation for economic growth is understood, what is considered innovative for the purposes of public investment and support is evolving

Public investment decisions are guided by how innovation is perceived. A practice may be viewed as a tool for radical or transformational change, or just as doing something differently and deliberately in order to achieve certain objectives—thus what is innovation in one context may simply be current good practice in another. In rural areas, innovation is widely linked: to the creation of networks, the strengthening of local identities, and the creation and dissemination of knowledge. The complexity of public services and the different country contexts means there is no single route or approach to innovation. The form and function of innovative service delivery schemes could range from, the pursuit of new organisational forms and arrangements, including partnerships with other levels of government and other sectors, in order to improve the delivery of programs and services; to the types of services and who delivers them. It could enable programs and services that result in: more cost-effective, responsive delivery to citizens; changes in organisational culture and management practices so that the organisation performs more effectively; and the granting of greater authority to managers, thus moving decision making closer to the point of delivery in the communities served. Some countries have gone as far as including public service innovation as part of a national overarching strategy while others are in the early stages of introducing public service reform.

> Measure usage not availability, innovation has to come from both the public and private realm, build engagement through competition, overcome resistance to change by selling a vision, and build measurements that reward co-delivery. (Jeffrey Dixon, The Monieson Centre, Queen's University School of Business, Ontario, CA)

In 2008 the Finnish Government started to develop a new national innovation strategy which is moving beyond an existing technological model of innovation and is giving greater importance to the role of the public sector itself as an innovator. This has identified the need to enhance the innovation capacity of the public sector and to incentivise significant change and promote risk taking. Korea is an example of a nationally led and orchestrated approach which uses a range of different tools to foster innovation. For example, there is a dedicated agency for innovation where the approach is customer oriented with citizens at its centre. The Danish government funds an organisation which includes both citizens and enterprises in developing innovative solutions for public administration. It is cross disciplinary and works on a range of public policy issues including integration and equal opportunities, employment opportunities for young

migrant workers, digital solutions, climate change and business regulation. Users are actively involved in the development and testing of service ideas and options and in evaluating service changes. Often the focus on innovation is linked to "high tech" products and "R&D" activities, aspects that are usually more evident in urban than rural areas. For these reasons, policy makers in rural areas have been encouraging a broader perspective with respect to innovation; one that moves innovation beyond "new" products. This point was underscored at the OECD Rural Development Conference in Edinburgh (*Innovative Rural Regions: The role of human capital and technology*). Participants at the London workshop concurred, widening the scope of innovation to take into account the fact that "innovation does not apply only to high tech" would lead to more informed, strategic decisions on investments in rural areas.

> When you have volunteers from the community, delivering services they are not civil servants in the traditional sense of the word but they are certainly delivering public services. This leads to an organisation that is culture centred rather than contract centred. (Alberto Cottica, Consultant, Ministry of Economic Development, Policy Evaluation Unit, Italy)

The government's role in innovation must also adapt. Participants in Edinburgh singled out "institutional innovation" and "governance" as changes necessary for the future for rural areas. Governments must move from "command and control" mode to one that embraces "partnership" and "new ways to support partnership creation" and the relations between public, private and non-government actors. In particular, participants stressed the need for governments to build capacity to anticipate and experiment; reduce friction and manage risk and take preventative action; ensure equitable distribution of the benefits from innovations and breakthroughs, establish equitable risk sharing to mitigate risks for citizens, especially for the most vulnerable; and, building citizen resilience so they can deal with problems and challenges. In Finland, corporation between regional and local authorities is vital. To strengthen this relationship at the regional level and improve service delivery at the local and regional level, certain reforms were introduced. The changes included: eliminating "overlapping functional areas" by reducing the number of district authorities from 20 to two.

Second, co-design and co-delivery offer a useful way to think about reorganising existing services and introducing new public services.

> The main idea underpinning co-design and co-delivery is that services should be produced with users input and not simply provided to users by government. (Elke Löffler, Chief Executive, Governance International)

Many public services are already co-produced (Box 3.8). But, despite demonstrating value, co-production is still on the fringes and has yet to be sufficiently recognised by governments in the form of more focused resources and support. User and community co-production of public services refers to the co-operation between the professional service providers (in any sector) and service users or other member of the community through establishing regular, long-term relationships, where all parties make resource contributions. Co-production is an umbrella term. It includes a range of more specific terms such as co-design, co-creation, co-delivery, co-management, co-decision, co-evaluation, which all reflect the different stages of citizen involvement and the different types of input[1]. At the workshop, the presentation on co-production of services highlighted the benefits of putting citizens at the heart of service delivery, as a way to: achieve effectiveness and efficiency, rebuild citizen trust, and respond to public policy issues, such as, health and climate change, which will require behavioural change that can only be fully addressed in co-operation with citizens.

Co-production can be a doorway to new opportunities but it also raises important challenges that governments have to face when they involve citizens in service delivery (*e.g.* probity and accountability, skills and organisational cultures). In recognising these challenges participants stressed the importance of strengthening the relationship between service users, their communities and service professionals, and developing new types of governance relationships that recognise how users and communities play a direct role in service delivery. This means moving beyond the rigid structures of the past that only looked at: administrative simplification, regulatory reform, integrity in public administration and budgetary outlays; to an approach that includes the recognition that improving specific aspects of public administration outputs would improve the system. Establishing these new relationship would require a rethinking of the traditional approaches to service delivery which build on the assumption that individual public management tools (regulations, administrative simplification, budgetary frameworks) can operate in isolation; to an approach based on the understanding that service effectiveness would depend on and require that these tools and framework be aligned and work together to support service delivery.

Box 3.8. **Examples of citizen and user involvement in service delivery**

Germany	In Brieseland, Germany citizens are driving buses for citizens to complement the offer of public transportation.
United Kingdom	The Expert Patients initiative in the United Kingdom patients with long term conditions take part in voluntary training schemes to help other patients cope with their disease.
	The personalisation agenda is about challenging the traditional way social care is provided and paid for in the United Kingdom. Formerly, a centralised and assessment based system delivered by professionals the personalisation agenda transforms the care by transferring the power and the money to the individuals to help them design and deliver the care packages they need. One key benefit is the increase in the number of citizens who remain in their communities and the decrease the number of people in residential care. The service policies are also starting to consider more the rural urban component.
Canada	Service Canada is focusing on both user centred innovation and the innovative use of digital technology in improving the delivery of government services. By using different channels built around the diversity of users' needs and circumstances.
United States	In the United States, state level health programmes allocate budgets to users of mental health services. Five states have self directed care pilots or established programmes for adults with serious mental illness – Florida, Iowa, Maryland, Michigan and Oregon. The Oregon model, the empowerment Initiatives Brokerage (EIB) is run by former mental health patients. It is for people with mental health conditions. In addition to clinical services, clients are provided with individual budgets for a 12 month period ($3000 in 2008) to kick start their recovery. They are allocated a resource broker who helps them identify their goals and organise their support. Brokers are usually peers with a personal understanding of mental illness and the mental health system. The characteristics of the Oregon system are: Person centred approach' Individual customer account – with their resource allocation. Encouraged to access resources through other routes and Other services are brokered
Australia	In Western Australia, the Disability Services Commission provides Local Area Co-ordination support. Local Area Co-ordinators (LACs) are based in local communities and each provides support and assistance to between 50 and 65 people with disabilities. LACs operate as service co-ordinators rather than service providers and, as such, are there to help the person with the disability and their families/carers where appropriate to plan, select and receive needed supports and services. LACs also contribute to building inclusive communities through partnership and collaboration with individuals and families, local organisations and the broader community.

There is scope for the wider use of public management tools such as co-design and co-delivery schemes in rural public service delivery strategies. Rural areas are challenged by typical service delivery approaches because of low population density and high transportation costs, but they may have an advantage in adopting co-design and co-delivery as a service delivery strategy. The population in rural areas is often prepared to become engaged in local policy discussions and often shares a common agenda. Consequently, it may be easier to reach agreement on how services are to be provided than in more complex urban societies. As mentioned in previous chapters, the voluntary sector in rural areas is already more involved in service delivery especially for those services where private sector provision is deemed not profitable. In other cases, co-delivery in rural areas can be utilised to achieve social objectives (*e.g.* community care for certain categories of people). In rural France, the *Ages&Vie* project ensures that the elderly who would typically move to residential care facilities stay in their communities in houses where care is provided by hosts under their employ. Subscribing to a philosophy of collective living, *Ages&Vie* houses accommodate six elderly residents and three hosts plus their families. All residents of the house are tenants, but in addition to the rent the elderly residents pay a salary to the team of hosts. When the *Ages&Vie* house is created a special housing association is formed that includes the mayor, the local General Practitioner, the host families, and the elderly residents. The Board of Directors of the association typically includes an elderly resident representative to ensure they have say in all decisions from employment, to house alterations and new investments. Recently the UK government introduced local area agreement targets which local area authorities are bound to meet and deliver. In *Somerset County*, rather than only doing the required minimum Somerset is using those targets as a foundation for: consulting with service users, restructuring organisations to involve service users and potential users to best achieve targets, and identifying what those targets mean to people and how Somerset can best deliver them.

Third, targeted service delivery policy strategies are key to responding to complexity and uncertainty and the evolving nature of the demand and supply of rural services

> A key thing is to work with communities from the very beginning to identify priorities and what is realistic for the County Council to achieve. (Des Hobson, Rural Policy Manager, Hampshire County Council)

A starting point for better tailored polices is identifying user needs and preferences, and sharing the information with the appropriate stakeholders

and policy makers. There are different ways to capture and disseminate user needs and preferences. The *Rural Proofing* initiative in England, a policy strategy that seeks to ensure the needs of rural areas are considered early in the policy design phase, is about "making the case" and gathering the evidence. The main responsibility for rural proofing in England lies with the Department of Environment, Food, and Rural Affairs (DEFRA). However CRC, as part of its work in support of the fair provision of services in rural areas, gathers the evidence to "motivate all strands of the public sector to think rural". An example from Australia goes a step further, and illustrates a more formal approach. In the state of South Australia government departments, agencies and statutory authorities are to prepare a public *Regional Impact Assessment Statement* prior to implementing significant changes to existing Government services in rural and regional areas. The statement has to set out the evidence, and analyse the economic, social and environmental implication of the implementation of a significant change in services. It should also demonstrate that the appropriate consultation and research was done and that it considered the impact on regions and communities of implementing the change was considered.

Another interesting example, presented at the workshop, is the *Knowledge Impact Society* project in Canada, which mobilises academic knowledge to increase rural Eastern Ontario's economic activity in order to grow healthier rural communities. The overarching aim is to move the results of academic research into Eastern Ontario's rural communities by looking at what is changing in the rural economy and connecting that academic research with communities at large. Most recently, the Centre's research, in collaboration with community leaders across Eastern Ontario, identified the creative economy as one of the key issues affecting the economic development of rural eastern Ontarians. Because Eastern Ontario is a large rural region with lagging wages, low employment rates, increasing high school dropout rates and high illiteracy rates there has been a weak connection to the "knowledge economy". By focusing on infusing creative actions into the local society the hope is that this will stimulate others to act in innovative ways. This particular scheme is also an example of how collaborations between different education institutions, the community and different government bodies can facilitate the seamless transfer of information and best practice sharing as well as develop higher education systems to address particular human capital problems.

> Policy must be written in a manner that people understand. If you can address yourselves to the mindset of people in rural communities and understand what they want to get out of life and how they see the future there is an opportunity to take steps in this areas. (Jennifer Jarratt, Principal, Leading Futurists, LLC)

Public policies need to make sense in the short and long term, which means targeted policies that require not just an understanding of user preferences and needs today but also thinking about needs and preferences in the future. On this aspect, the presentation on *futures thinking* provided some valuable insights and an introduction to the analytical tools policy makers are using, and will need to use, to think about the future (Box 3.9). As an example, thinking more about the future can help explain the cascading impacts of the crisis and the potential changes that will flow there from. The increased difficulty in providing rural services is not just the reduced willingness of many governments to subsidise rural service provision it also stems from the uncertainty surrounding the demand and supply drivers of public service delivery. The DC10plus presenters agreed – they suggested that part of the role of the public sector is to challenge the private sector model of demand. In their view, in the case of IT services private sector models consistently fail to consider "latent demand" – things that can stimulate demand, "alternative uses" and "future changes in demand". Based on the discussion, futures thinking can enhance policy development and help in the design of better services in rural areas because it will: improve the decisions made in the present and reveal new opportunities.

There are different ways to incorporate *futures thinking* into the policy design. And, the United Kingdom is well on its way in thinking about the future and encouraging dialogue in the context of rural areas and service delivery. A recent study of the future of service delivery in rural England, *The future of services in rural England: The drivers of change and a scenario for 2015*, by Malcolm J. Moseley, is one example. The study reveals that while the geographical pattern of settlements and physical settlements may marginally change; the social, economic, culture and technological context of rural service provision is in constant flux. Its evolution will depend in large measure on commercially driven decisions in which social welfare consideration will play little or no part, and change could lead to more acute problems for a minority of people in rural areas. [2] After constructing a scenario of what the delivery of services to England's rural residents could be in 2015, the study concluded that not only is the change already visible in the supply and demand for rural services and the nature of rural service delivery, but that it could lead to more acute problems for a minority of people in rural areas.

Box 3.9. **How "Futures Thinking" can enhance policy development**

Four ways in which futures thinking and foresight can enhance policy development:

- **Contingency**—preparing for possible risks, big changes, unplanned events
- **Optimisation**—how can we best use all our assets?
- **Exploring**—what does the future offer us that is new, unexplored, and different?
- **Evaluation**—how can we use the future to understand long-term impacts?

Active foresight is our effort to move beyond today's constraints and explore how we might improve the outcome for tomorrow. Consider:

- **What's the system we are working with?** Is it big, old & slow moving, hard to change? Bigger, older systems are stable. We can have more impact on a young, new future-oriented system, but it is less stable.
- **Know the forces driving** & shaping the system & its future. Are there shifts in population, technology, lifestyles, economic viability, etc.? Are these forces strong or weak? Can we see early signals of something new?
- **Ask the "what if?" questions.** What if we took a different approach? What if we turned everything on its' head & examined the "feet" as if they were the most important? What if something unexpected happened? What's the story we can tell?
- **What will change enable us to do?** Think how technologies will enable us to do new things, organise in different ways. It is more important to understand a technology's capabilities than to forecast its future.
- **People & societies have mindsets about the world**. Change the mindset and you change the system—almost overnight. Integral futures helps us delve into individual motivations, fear & hope, behaviour, culture and understand how we see the world.

Source: Jennifer Jarratt (2009), presentation at OECD-CRC Workshop: *Designing Services for Rural Communities: The Role of Co-design and Co-delivery*, 12 June, 2009.

Fourth, the focus on England's policies demonstrated the importance of:

Merging the urban rural mindset

> The people in rural areas are more resilient, they know how to make do and mend, come up with practical solutions useful in a world where you can't afford the luxury of more exotic solutions. (Richard Wakeford, Chair of the Working Party on Territorial Development Policy in Rural Areas, OECD)

Rural areas are re-inventing their role in the global economy and policy makers should encourage an integrated policy design approach that takes into account both the needs of rural and urban regions. Despite the fact that many countries continue to view their rural and urban territories as distinct and separable for most public policy purposes, policy makers across the OECD increasingly recognise that strategies for rural and urban areas cannot be discussed as separate items. In reality the development dynamics of these region types are linked and citizens are being drawn closer in terms of common aspirations and life style. Traditionally, rural service delivery policy prescriptions are made by urban policy makers without meaningful consideration of rural needs. This, often results in mixed results and misplaced policy targeting. But, service delivery policies should not be dominated either by urban or rural priorities, but should be informed by a place-based, place-shaping approach. The most dynamic development and cross cutting service delivery patterns often comes out of the intersection between urban and rural. The case of HCC illustrates this in many respects. The introduction of the County Councillor, a powerful elected official as an advocate for rural interests in a bureaucratic local government agency that has an admittedly "traditionally urban focus in terms of policy" is one way to fuse the rural urban mindset. Popularly supported, the Councillor's responsibilities bridge rural and urban, covering both the general performance and efficiency in the County Council and improving horizontal co-ordination by "breaking down" departmental silos. In England, as in Italy and other countries, the rural urban debate is longstanding and singularly policy approaches have yielded unbalanced effects particularly for some rural communities.

Building connectivity—ICT is one way to improve social inclusion

> What we tried to do with DC10 plus is set out working at the grass roots level based on citizen demand on consumer need working collaboratively with industry, the third sector and the public sector and

> with the citizen at the heart of those issues but involvement is still seen as a cost instead of an opportunity. (Stephen Dodson, Director DC10plus)

ICT is introducing new forms of service delivery choices. For rural areas, it provides new ways of dealing with the disadvantages of remoteness by: *i*) contributing to the reduction in costs associated with physical distance; *ii*) facilitating access to information; and, *iii)* improving quality of life and services through, telework, education, health services delivery and more. Research shows that in rural areas it is not enough to have low cost and reliable ICT infrastructure, there should be other factors: such as, intelligent use of technology by government (e-government); and an institutional framework that encourages inter firm and public private co-operation; as well as, a business structure that promotes entrepreneurship to name a few. The HCC and DC10plus experiences incorporate a number of these factors. Access to the internet was identified as a key priority for rural Hampshire. Studies revealed that many in rural Hampshire lacked what the "government considers the minimum standard of internet coverage". However, each primary school under the authority of HCC has a 100 megawatt fibre optic cable and high-speed broadband access. A number of these cables are in proximity to homes with no access to internet coverage. HCC is exploring ways to share the education network with the community. To encourage more private sector involvement, the plan is to simply give the communities access. They will then be the ones who must decide the best way to design the local service.

DC10plus advocates the use of technology as a way to support local communities and address the "triple divide" in rural areas. Norfolk is a large county, which is sparsely populated outside of the main population centres. There are some rural areas with high levels of deprivation within small towns and villages, and there are significant digital divide issues as these areas have higher than average percentages of older people and low levels of skill. The elderly are the least likely to take advantage of ICT services. In addition, there are high numbers of people without mobile phones or home computers, including approximately 23% of children. This is a concern, because the use of ICT is increasingly becoming the norm in accessing services in the private and public sector; so rural dwellers without access risk further exclusion. DC10plus in collaboration with partners (*e.g.* Police, Health Services etc), through the *Norfolk Connect* initiative, agreed on the basis for access to services, which was "information and e-services by the internet". This meant a services package that includes: developing good practices for providing information by the internet, and developing networks to exchange these practices within local government, other public bodies and the private sector. In areas, such as North Norfolk, where: the rural

community is isolated, the transportation links to the nearest market town are weak and where there are no fixed access points on which to build, different solutions are needed. The DC10plus network introduced the *Service2gether* community managed service access initiative. In the case of North Norfolk, through public consultations coupled with research, the demand for local services was identified. This was followed by screening for potential locations for hosting access points and for local community groups and organisations willing to host the access points and provide a voluntary service. Once these aspects were in place, a service package that reflected the service needs for the community was introduced. For North Norfolk, the "standard" services included: one or more computers with broadband access, a freephone with locked down numbers to key services, and training for community volunteers. The staff are supported and "managed" by the County Council's customer service staff.

Encouraging flexibility and adaptability in local governance schemes

> Delivering services is about the recognition of stakeholders, in the past it was too centrally lead. It's about using the tools to shape our services instead of taking the legislation that comes from parliament and reading it in black and white. We work with the community and say here is legislation that has been introduced do we use it to shape policy and future decisions. (Christian Trevelyan Partnership Manager, Sedgemoor and West Somerset District Council)

To be effective, innovative service delivery calls for flexible and adaptable local governance schemes. Cultivating environments that: facilitate knowledge-pooling, simplify decision making, engage more local communities and integrate local expectations, is one way to start. This shift was evident in a number of the experiences discussed by workshop participants. For example, in Scotland, a climate challenge fund was established by the government for communities to address the reduction of carbon dioxide emissions. However, instead of the local authorities receiving funds to implement a plan of action, the funds were made available directly to the communities. To receive the money, each community has to design a plan that they are prepared to implement. This scheme has "enthusiastically engaged" communities and provided opportunities to expand knowledge at the local level on the importance of reducing carbon emissions. Creativity and out of the box thinking are a part of innovation. In particular, services fill a need, but as it is difficult to know the full extent of how services will be used it is important to leave room for exploration. Innovative ideas can come from unlikely places and from individuals who think and work in new ways and who may challenge accepted practices and values. The DC10plus presenters noted that they

were *only* able to develop DC10plus because they were provided with funding to step back, "experiment" and "think creatively". As such, it is important to continue to foster new forms of thinking and it is important to create space in governments where diverse approaches are encouraged. The HCC subscribes to this mindset. The partnership in addition to designing the rural strategy, decided to set aside funds for "innovation and change". A nominal sum of a quarter million pounds is earmarked "to test new and innovative ways to respond to some of these issues". The HCC partnership goes a step further and introduced a "community challenge fund". This makes funds available to members of the community with "good ideas" that need support with minimal paperwork.

The importance of partnership and balancing the roles of public, private and voluntary sectors

> In the past there was a silo effect, each department delivered but not in collaboration. We now have a system of working together across department boundaries. (Councillor Dr. Ray Ellis, Executive member for Rural Affairs, Hampshire County Council)

In rural areas with fewer choices of service providers, governments need to seek partners for the delivery of public services. Investor-owned firms are less likely to engage in rural service provision, so that the role of provider is likely to fall largely to the government or the voluntary sector. It is a challenging and potentially lengthy project to transform bureaucratic cultures such as governments. One way to work around this is to partner with organisations which have a culture that facilitates the risk taking and experimentation necessary to innovate. The DC10plus team is visible at different levels and active in different groups. They are a part of the European Union living labs network, an innovation network focused on experimentation and co creation to engender economic growth. The network is a mix of researchers, firms and public institutions from across the EU working together to develop: new solutions, new products, new services or new business models. In addition to external partners, they are uniquely, well linked at all levels of government and in the private sector. The different horizontal and vertical links means they are well placed to pick up new things as they come through both from the private sector and technology changes. As one presenter observed, "issues which we find at the bottom level filter up, but also there is an opportunity to review and help reshape the strategic policy drivers from central government for feasibility based on, on the ground information". The experience of Somerset distinguishes itself by introducing more choice in housing decisions for rural dwellers utilising a strong collaborative frame with government and non

governmental bodies. For example, the *Choice Based Lettings* systems work by placing advertisements of available properties in designated systems so registered participants may place a bid. However, none of the authorities had a system capable of carrying Choice Based lettings. To explore the potential for a joined-up endeavour, a countywide procurement group was formed comprised of a mix of: Housing Managers, Portfolio Holders, IT specialists and procurement officers from all the five districts of Somerset. Through this group an IT system was procured to manage the strategic housing functions such as homelessness, housing register, and temporary accommodation.

Distinguishing between innovations that occur out of necessity and innovations that occur from opportunity.

> The people in rural areas are more resilient, they know how to make do and mend, come up with practical solutions useful in a world where you can't afford the luxury of more exotic solutions. (Richard Wakeford, Chair of the Working Party on Territorial Development Policy in Rural Areas, OECD)

Often the search for innovation is driven by a perceived failure or shortfall. For example, there may be too little social housing to satisfy local demand, as was the case in Devon. In a necessity based environment the temptation is to look for a way to fix a specific problem, often in as quick and inexpensive a way as possible. In this environment innovations are more likely to involve marginal change and not be very well coupled to other issues because of the pressure for a quick solution. By contrast, where innovation is driven by recognition of opportunity, there can be a much richer approach to the solution. When opportunities are perceived there is a larger possibility to see the big picture and bring in co-design and co-delivery as mechanisms to improve service availability and delivery. In the Devon example the community was able to look beyond the simple problem of increasing the supply of low income housing and see how housing and the different ways of providing it affected a larger set of community relationships.

Conclusion

> In rural areas we have to think about other than government solutions. We have to do the same in urban areas but it is particularly important in rural areas because policymakers have to think outside the box and deliver inside the box. (David Freshwater, Head, Rural Development

Programme, Regional Competiveness and Governance, Public Governance and Territorial Development Directorate, OECD)

Since the 6th Annual Rural Conference in Cologne (2008), the global economic recession has taken hold, significantly affecting rural areas by narrowing the space for fiscal policy and further constraining national government budgets, thereby threatening the resources available for rural development. But by affecting rural areas in different ways, the recession reinforced the importance of strong, well-functioning adaptable public services. More than just responding to the triage conditions created by the crisis, public services need to anticipate the impacts of future demand and supply (Fluharty, 2009). The differences between regions, and their populations' needs and preferences, calls for different mixes of public services adapted to regional characteristics. The focus on rural communities in England illustrated not just the limits of a "one size fits all" approach to service design and delivery, but the inherent complexities in designing services for rural communities and the potential for "future thinking and tools". Each strategy underscored the potential for the private and voluntary sector to play new roles in public service delivery, especially through partnerships. The importance of abandoning silos and combining multiple functions, as well as the importance of continuous dialogue in identifying service delivery solutions become evident. In particular, the HCC imposed an entrepreneurial model on a traditional model of government, and while the process is ongoing, and not without its drawbacks, the early results are encouraging. DC10plus sets itself apart because it has a very complex governance model that does not feel "complex" with service delivery packages that "fit" the areas.

The service sector is now by far the largest contributor to GDP and employment in the OECD countries. Because of its dominant role both in the economy and as an important factor in quality of life it is important that the right mix of services be provided in an efficient and equitable way. Governments are not the only providers of services, but governments play a key role in providing most of the core, or basic, services that people rely upon. Even before the current recession hit and reduced government revenue while expanding demand for safety-net services, there were growing pressures to find ways to deliver public services more effectively. This first workshop shows that there are important innovations taking place in service delivery in rural areas, particularly innovations that focus on co-design and co-delivery. While new technologies play an important role in innovative service delivery approaches, the workshop demonstrated that the crucial factor in improving services was a recognition that a problem existed and hard work by groups of individuals to identify and implement new solutions.

Government at some level played an important role in the solution, but in all cases a public-private partnership was vital in putting the strategy together.

> The Commission believes that the fair and equitable provision of services is actually fundamental to the well being of rural communities and indeed to the future prospects of rural areas. (Stuart Burgess, Chairman, Commission for Rural Communities)

Governments everywhere face growing challenges in the design and delivery of public services. These challenges are increasing as: the number of vital public services expands, the mix of services desired by people becomes more diverse, and the fiscal capacity of governments becomes more constrained. Because services are such a vital part of the economy and the quality of life of citizens, it is important that government ensure that citizens and firms have access to an appropriate service mix. Services are valuable both in terms of the direct benefits they provide individuals and because they play an important role in supporting the competitive status of regions or national mechanisms. The idea of co-design and co-delivery offers an exciting new way to create, and then provide, services. Because service users are involved in designing the types of services and how they are provided there is a better opportunity to give rural dwellers the services they want in a way they want to receive them. This approach could have great potential in rural areas where traditional service delivery approaches can be too expensive or inappropriate. Because service delivery in rural areas is to a great extent a niche business, and not a mass production process, it is important to have the end user in mind at all stages.

Notes

1 See for more details on current work on citizen involvement in service delivery, "Innovation in Public services: Working Together with Citizens for Better Outcomes", outline of the report, GOV/PGC/RD(2009)6.

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Strategies to Improve Rural Service Delivery

The delivery of services to rural regions is a key concern for both OECD and non-OECD countries. The service sector, in aggregate, now dominates total employment and value-added in OECD countries, accounting for more than 70% of these two measures, and continues to increase in importance. While services may play a slightly smaller role in rural regions than in urban areas, they are the dominant component of the rural economy. It is clear that a vibrant service sector is both vital for a prosperous local economy and crucial for meeting the needs of rural citizens.

This book provides an overview of the underlying problems in delivering services to rural regions. It contains a conceptual structure for thinking about rural service delivery problems and a strategy for thinking about the role of government in service delivery, as well as a discussion of the role that innovation and public management tools like co-design and co-delivery can play in designing better service delivery approaches. Also included are examples of different, successful policy strategies drawn from OECD countries.

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